# COVER SHEET
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| A | S | - | 9 | 4 | 0 | 0 | 4 | 4 | 6 | 2 |
|---|---|---|---|---|---|---|---|---|---|---|

COMPANY NAME

GLOBAL-ESTATE RESORTS INC

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

16TH FLR ALLIANCE GLOBAL TOWER
36TH ST COR. 11TH AVENUE
UPTOWN BONIFACIO TAGUIG CITY

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 17-A | SEC | N/A |

### COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| lvvillanueva@global-estate.ph | 328-4374 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 4,208 | June - 29 | December - 31 |

### CONTACT PERSON INFORMATION

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| LAILANI V. VILLANUEVA | lvvillanueva@global-estate.ph | 328-4374 | N/A |

### CONTACT PERSON'S ADDRESS

16F Alliance Global Tower, 36th St. cor. 11th Ave., Uptown Bonifacio, Taguig City

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

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

SEC Number: AS 094-004462
File Number: _________

**GLOBAL-ESTATE RESORTS, INC.**
(Company's Full Name)

16th Floor, Alliance Global Tower, 36th
Street cor. 11th Avenue, Uptown
Bonifacio, Taguig City 1634
(Company's Address)

**SEC Form 17 - A Annual Report**
(Form Type)

(Amendments – if applicable)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A, *AS AMENDED***

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

1. For the fiscal year ended **December 31, 2019**

2. SEC Identification Number **AS 094-004462**

3. BIR Tax Identification No. **000-426-523**

4. Exact name of issuer as specified in its charter **GLOBAL-ESTATE RESORTS, INC.**

5. **Taguig City, Philippines**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. **16th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City** — **1634**
   Address of principal office — Postal Code

8. **(632) 5328-4370 to 78**
   Issuer's telephone number, including area code

9. **N/A**
   Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common Shares** | **10,986,000,000** |
| **Outstanding debts (loans)** | **5,024,305,898** |

11. Are any or all of these securities listed on a Stock Exchange.

    Yes [**X**] No [ ]

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

    10,986,000,000 common shares have been listed with the Philippines Stock Exchange as of December 31, 2019.

12. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and

141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [**X**] No [ ]

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

Yes [**X**] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant:

**P 2,326,787,336.40 (as of December 27, 2019) based on the closing price of Php1.20 per share**

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

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

Yes [ ] No [ ] **Not Applicable**

**DOCUMENTS INCORPORATED BY REFERENCE**

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

2019 Audited Consolidated Financial Statements (incorporated as reference for Item 7 of SEC Form 17-A)

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# PART I – BUSINESS AND GENERAL INFORMATION

## ITEM 1. BUSINESS

**Business Development**

Global-Estate Resorts, Inc. ("**GERI**" or the "**Company**") was incorporated on 18 May 1994 as Fil-Estate Land, Inc. to engage in real estate development. 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 the Company and re-branded it as Global-Estate Resorts, Inc. to engage in the development of integrated tourism and leisure 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 primarily engaged in the development of integrated tourism and leisure estates and integrated lifestyle communities consisting of residential, retail, hotel and/or leisure components in natural resort settings. 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, Alabang West in Las Pinas, Metro Manila, Eastland Heights in Antipolo City, Rizal, The Hamptons Caliraya in Lumban-Cavinti, Laguna, Arden Botanical Estate in Trece and Tanza, Cavite and The Fifth in Pasig City, 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 ("**TLC**"), 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. ("**SMI**"), 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 by the Company's in-house marketing group.

The Company's hotel developments in Boracay and Twin Lakes are operated by its subsidiaries Twin Lakes Hotel, Inc. (incorporated on 28 September 2018), Savoy Hotel Boracay, Inc. (incorporated on 24 January 2017), Belmont Hotel Boracay, Inc. (incorporated on 18 March 2019), and Fil-Estate Urban Development Corporation ("FEUDC") (incorporated on 6 March 2000).

Prior to 2011, the Company's 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.

**Bankruptcy, Receivership or Similar Proceedings**

Neither the Company nor its significant subsidiaries have been involved in bankruptcy, receivership or similar proceeding.

**Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary)**

As of 31 December 2019, FEPI sold 100% ownership interest in Boracay Newcoast Hotel Group, Inc. ("**BNHGI**"), a hotel development company incorporated on 17 July 2012.

**Products**

GERI together with its subsidiaries (the "**GERI Group**") have a diversified real estate inventory including residential and commercial lots, residential condominium units, condominium hotel units, and golf club shares.

**Percentage of sales or revenues and net income contributed by foreign sales**

Sales to the foreign market accounted for 15% of the consolidated real estate sales for the year 2019.

**Distribution Methods of Products**

Real estate products in GERI developments are promoted and marketed to a wide range of clients by GERI's in-house marketing group and marketing subsidiary, Megaworld Global-Estate, Inc. ("**MGEI**"). Real estate products in FEPI and FEGDI developments are sold thru third party real estate brokers.

**Suppliers**

The Company has a broad base of suppliers. The Company is not dependent on one or a limited number of suppliers.

**Customers**

GERI has a broad market base that consists of end-users and investors, both from the local and foreign markets.

The Company targets the Class A and B markets with special niche products such as integrated tourism and leisure estates and integrated lifestyle communities with residential, commercial and leisure components.

**Competition**

Significant competitors of the Company in its real estate development business include Ayala Land Premiere, Alveo, Filinvest Premiere, Landco, and SM Prime.

The Company competes with other developers in the acquisition of land or development rights to land in key growth areas in the country.

The Company aims to be the leading developer of integrated tourism and leisure estates in the Philippines. The Company's tourism projects are strategically located in Boracay and Laurel, Batangas and feature strategic master-planned communities integrated with resort amenities.

The Company believes that its land bank, real estate development experience, innovative real estate offerings, and the solid financial backing of its parent, Megaworld Corporation, are its competitive advantages. Its massive landbank in tourist destinations such as Boracay Island, and Laurel and Nasugbu, Batangas gives it a lead over its competitors and has enabled the Company to be a pioneer in master-planned integrated tourism developments.

**Transactions with and/or dependence on related parties**

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and related parties including investments in and advances granted to or obtained from subsidiaries, associates and other related parties for purposes of working capital requirements. For more information, see Note 24 to the Audited Financial Statements.

**Amount spent on research and development activities and its percentage to revenues**

The Company incurs minimal amounts for development research activities, which do not amount to a significant percentage of revenues.

**Intellectual Property**

The Company believes that its operations and that of its subsidiaries are not dependent on any trademark, patent, copyright, license, franchise or royalty agreement. Nonetheless, the Company has trademark registrations and/or applications for its corporate name and key projects.

**Government Approvals / Regulations**

The Company secures various government approvals such as the Environmental Compliance Certificate (ECC), development permits, license to sell, etc. as part of the normal course of its business.

*Development Permit and License to Sell*

Prior to the enactment of Republic Act No. 11201, otherwise known as the "Department of Human Settlements and Urban Development Act", on 14 February

2019, Housing and Land Use Regulatory Board ("**HLURB**") was the planning, regulatory and quasi-judicial national government body tasked to regulate land use and, real estate and housing development.

With the enactment of RA 11201, the Department of Human Settlement and Urban Development ("**DHSUD**") is now the primary national government entity responsible for the management of housing, human settlement and urban development.

DHSUD is the sole and main planning and policy-making, regulatory, program coordination and performance monitoring entity for all housing, human settlement and urban development concerns, primarily focusing on the access to and the affordability of basic human needs. One of its regulatory functions include the formulation, promulgation, and enforcement of rules, standards and guidelines over subdivisions, condominiums, and similar real estate developments, and imposition of fines and other administrative sanctions for violations, pursuant to PD 957, as amended, BP 220 and other related laws.

DHSUD is actually a merger of the Housing and Urban Development Coordinating Council (HUDCC) and the HLURB, with the former becoming defunct and the latter reorganized as the Human Settlements Adjudication Commission (HSAC).

A registered owner or developer of a parcel of land who wishes to convert the same into a subdivision project shall apply with the Local Government Unit ("**LGU**") concerned for the approval of subdivision Development Permit. The owner/developer shall subsequently apply for Certificate of Registration and License to Sell with HLURB, now DHSUD, prior to the selling of units/house or lots.

On the other hand, an owner/developer of a condominium project is required to apply for Development Permit, Certificate of Registration and License to Sell with the HLURB, now DHSUD, prior to actual development and selling of units therein.

*Agrarian Reform Law*

The Comprehensive Agrarian Reform Law covers: (a) alienable and disposable lands of the public domain devoted to or suitable for agriculture, (b) land owned by the Government devoted to or suitable for agriculture. No person may own or retain, directly or indirectly, any public or private agricultural land, in excess of five (5) hectares. A limit of three (3) hectares may be awarded to each child of the landowners, subject to certain qualifications. The law allows the conversion of agricultural lands to non-agricultural use when the land ceases to be economically feasible and sound for agricultural purposes. Furthermore, the Department of Agrarian Reform Administrative Order No. 01 s. 1990 provides that any such classification or re-classification made after 15 June 1988 shall be subject to Department of Agrarian Reform ("**DAR**") approval.

*Environmental Compliance Certificate*

Any project in the Philippines that poses a potential environmental risk or impact (e.g., golf courses, beach resorts, developments adjacent to watershed areas, etc.) is required to secure an Environmental Compliance Certificate ("**ECC**") from the Department of the Environment and Natural Resources – Environmental Management Board ("**DENR-EMB**").

An ECC is issued by DENR-EMB after a positive review of the project's application. This certificate indicates that the proposed project or undertaking will not cause a significantly negative impact on the Philippine environment. The ECC contains specific measures and conditions that must be met by the project proponent before and during the operation of the project. In some cases, conditions are listed to be performed during the project's abandonment phase to lessen identified potential environmental impacts.

An ECC also certifies that the proponent has complied with all the requirements of the Environmental Impact Statement (EIS) System and has committed to implement its approved environmental management plan. Compliance with the terms and conditions of the ECC is monitored by the appropriate DENR regional office and failure to comply may lead to penalties and sanctions being imposed, including fines and / or temporary cessation of project operation.

**Effect of Existing and Probable Government Regulations**

Republic Act No. 7279 ("**Urban Development Housing Act**"), as amended by Republic Act 10884 ("**Balanced Housing Development Program Amendments**"), requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 15% of the total subdivision area or total subdivision project cost and at least five (5%) of condominium area or project cost, at the option of the developer; in accordance with the standards as provided by law.

Tax Regulations

On May 24, 2005, the President of the Philippines signed into law Republic Act No. 9337 (RA 9337), which, effective November 1, 2005, introduced the following changes, among others:

a. Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;

b. Grant of authority to the Philippine President to increase the 10% value added tax (VAT) rate to 12%, subject to compliance with certain economic conditions. The 12% VAT took effect on February 1, 2006; and

c. Revenue Regulations No. 16-2011 increasing the amount of threshold amounts for sale of residential lot, sale of house and lot effective January 01, 2012. Sale of residential lots with gross selling price of P1,919,500 or less, and residential house and lots with gross selling price of P3,199,200 or less, are not subject to Value Added Tax (VAT)

   On December 17, 2017, Republic Act No. 10963 or the "Tax Reform for Acceleration and Inclusion (TRAIN)" was approved which amended several provisions of RA 9337 and is effective January 1, 2018. One of the amendments introduced by the said law is the lowering of the threshold amount for VAT recognition purposes of sale of residential lot and sale of house and lot. Sale of residential lots with gross selling price of P1,500,000 or less, and residential house and lots with gross selling price of P2,500,000 or less, are not subject to Value Added Tax (VAT); Provided that beginning January 01, 2021, the VAT exemption shall only apply to sale of real properties not primarily held for sale to customers, sale of real property utilized for socialized housing as defined by Republic Act No. 7279, sale of house and lot, and other residential dwellings with selling price of not more than P2,000,000.

The Maceda Law

The Maceda Law applies to all transactions or contracts involving the sale or financing of real estate on installment payments (including residential condominium units but excluding industrial and commercial lots). Under the provisions of the law, where a buyer of real estate has paid at least two years of installments, the buyer is entitled to the following rights in case he/she defaults in the payment of succeeding installments:

a. To pay, without additional interest, the unpaid installments due within the total grace period earned by him, which is fixed at the rate of one (1) month grace period for every one (1) year of installment payments made. However, the buyer may exercise this right only once in every five (5) years during the term of the contract and its extensions, if any.

b. If the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to 50% of the total payments made, and in cases where five (5) years installments have been paid, an additional 5% every year (but with a total not to exceed 90% of the total payments).

Where a buyer has paid less than two years of installments, the buyer is entitled to pay the outstanding amount due without interest within a grace period of sixty (60) days from the date the installments became due.

Zoning and Land Use

The Department of Agrarian Reform (DAR) has issued regulations to effect the provisions of the Agrarian Reform Law in the Philippines. Under the law, all land classified for agricultural purposes as of or after 1 June 1988 cannot be converted to non-agricultural use without the prior approval of the DAR.

Land use may also be limited by the zoning ordinances of Local Government Units. Lands may be classified as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process maybe lengthy and cumbersome.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (ECC) prior to commencement of development. The Department of Environment and Natural Resources (DENR) through its regional offices or through the Environmental Management Bureau (EMB), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement (EIS) to the EMB while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination (IEE) to the proper DENR regional office.

GERI has an environmental compliance team that monitors and maintains compliance by its developments with applicable Philippine environmental laws and regulations. There are no compliance issues, which would have a material effect on GERI's capital expenditures, earnings or competitive position in the property market.

## Employees

As of 31 December 2019, GERI group has a total of 805 employees, divided into:

| | | |
|---|---|---|
| Top Management | - | 10 |
| Middle Management | - | 252 |
| Rank and File | - | 543 |

The Company expects to increase its number of employees in the next 12 months in accordance with operational requirements.

The employees are not subject to any collective bargaining agreements. There has been no employee union since the start of Company's operations.

In addition to basic salary and 13$^{th}$ month pay, other supplemental benefits provided by GERI to its employees include: retirement benefits as mandated by law, vacation and sick leave benefits, rice subsidy, and HMO health care coverage.

## *Risk Factors Relating to the Company*

*Highly Competitive Business Environment*

The Company faces increased competition from other developers who undertake residential subdivisions and vertical residential, commercial and office projects, particularly in key cities of the Philippines where several of the Company's present and future projects are located.

Notwithstanding increased competition in the industry, GERI intends to enhance its position as one of the leading property developers of integrated tourism estates in the

Philippines. The track record of the Company and the Megaworld group and the Company's strategic land bank are perceived to be major advantages against this anticipated growth in competition.

*Demand for Real Estate Developments*

The Company engages, among others, in the development of integrated tourism and leisure estates as well as integrated lifestyle communities. Demand for real estate developments tends to be affected by any long-term economic downturn and political instability in the country. In the short-term, the Company anticipates that COVID-19-related measures such as travel restrictions will temporarily affect hotel occupancies. Social distancing rules will likewise temporarily reduce foot traffic in malls.

The Company engages in the development of mixed-use developments in different market segments and geographic areas in order to diversify its real estate portfolio.

*Limitations on Land Acquisition*

As other developers race to acquire choice locations, it may become more difficult to locate parcels of suitable size in location and at prices acceptable to the Company that will enhance its present land bank. In this regard, the Company continues to explore joint ventures as an alternative to building its land bank and identifying properties that can be developed under project agreements with landowners.

*Legal Issues or Disputes on Properties*

There are legal disputes pertaining to some of the Company's real estate properties but these disputes are not expected to significantly impact the Company's business or financial condition.

*Government Approvals, Licenses and Permits*

The implementation of projects requires various government permits, approval and clearances from various municipal, city, regional and national government authorities and offices, such as, among others, the Development Permit, Certificate of Registration, License to Sell and in certain instances, the Environment Compliance Certificate. Accordingly, any delays in obtaining such government permits, approvals and clearances may affect the Company's projects. The Company routinely applies for governmental approvals required for its development projects.

*Political and Economic Factors*

In general, the profitability of the Company depends on the overall demand for Company's products, which in turn is affected by political and economic factors. Any political instability in the future may have a negative effect on the viability of real estate companies. Economic factors such as substantial increases in interest and financing costs may dampen the overall demand for Company's products in the future, thus affecting the Company's profitability.

*Credit Risk*

Generally, the Group's credit risk is attributable to trade receivables, advances to related party and other financial assets. The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group transfers title to buyers over its inventory only after full payment. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position.

*Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows arising from day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week, as well as on the basis of a rolling 30-day projection.

Long-term needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

*Interest Rate Risk*

The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates.

The Group follows prudent policies in managing its exposures to interest rate fluctuation, and constantly monitors its exposure to fluctuation in interest rates to estimate the impact of interest rate movements on its interest expense.

*Foreign Exchange Risk*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposure to currency exchange rates arises mainly from the Group's U.S. dollar-denominated cash and cash equivalents, which have been used to fund new projects.

In Management's assessment, the foreign currency risks related to these U.S dollar-denominated cash and cash equivalents are not material.

As of December 31, 2019, the Group has no outstanding foreign denominated loans.

## ITEM 2. PROPERTIES

The GERI Group has a landbank of approximately 2,560 hectares.

These land bank held for future development are strategically located in various parts of the country, but a large portion is located in Sta. Barbara in Iloilo, Boracay, Laurel and Nasugbu in Batangas, Southwoods, Laguna, Cagayan de Oro and Trece/ Tanza, Cavite.

The inventory portfolio of the Company consists mainly of inventory also strategically located in various parts of the country but mainly in Iloilo, Boracay, Laurel in Batangas, Laguna and Las Piñas. Real estate and golf club and resort shares for sale and land held for future development are valued at the lower of cost or net realizable value in conformity with PAS 2 "Inventories". Cost includes the acquisition cost of the land plus all costs directly attributable to the acquisition for projects where the Company is the landowner, and includes actual development cost incurred up to balance sheet date for projects where the Company is the developer. Net realizable value is the selling price in the ordinary course of business less cost to complete and to market. A valuation allowance is provided for real estate and golf club and resort shares for sale and land held for future development when the net realizable values of the properties are less than the carrying costs.

The GERI Group has adequate landbank for its long-term development requirements. It is, however, open to new land acquisitions in strategic growth areas. Funding for these acquisitions will be internally generated.

In 2018, GERI Group has adopted PIC Q&A 2018-11, Classification of Land by Real Estate Developer, retrospectively. PIC Q&A 2018-11 requires real estate developers to classify land based on management's intention and apply the appropriate accounting treatment as required by relevant standards. In previous years, land, including other costs and expenses related to the transfer of title of the property, were presented as Land for Future Development and only reclassified to Property Development Costs account (a real estate inventory account), when the development of the property starts. Upon the adoption of PIC Q&A 2018-11, parcels of land with no definite plan of future use was reclassified to Investment Property and parcels of land with intention by management to develop into residential or commercial properties for sale are reclassified to Real Estate for Sale.

The GERI Group has real estate inventories in its various developments including the following:

| PROJECT NAME | LOCATION | LIMITATIONS ON OWNERSHIP | DEVELOPER |
|---|---|---|---|
| **LUZON** | | | |
| A. Metro Manila | | | |
| Alabang West | Las Piñas City | Joint Venture | GERI |
| The Fifth | Pasig City | Joint Venture | GERI |

| | | | |
|---|---|---|---|
| 8 Sto. Domingo Place | Quezon City | Joint Venture | FEPI |
| Cathedral Heights | Quezon City | Joint Venture | FEPI/FEUDC |
| Capitol Plaza | Quezon City | Co-development | FEPI |
| Parco Bello | Muntinlupa City | Joint Venture | FEPI |
| | | | |
| B. Laguna | | | |
| Holland Park | Biñan, Laguna | Joint Venture | GERI |
| Tulip Gardens | Biñan, Laguna | Joint Venture | GERI |
| The Hamptons at Caliraya | Cavinti, Laguna | Joint Venture | GERI |
| Caliraya Springs | Cavinti, Laguna | Joint Venture | FEPI |
| Palacio Real | Calamba, Laguna | Joint Venture | FEPI |
| Riverina | San Pablo City | Joint Venture | FEPI |
| | | | |
| C. Cavite | | | |
| The Lindgren at Arden Botanical Estate | Trece Martires City, Cavite | Joint Venture | GERI |
| Pahara at Southwoods | GMA, Cavite | Joint Venture | GERI |
| Holiday Homes | Gen. Trias, Cavite | Joint Venture | FEPI |
| Mango Orchard Plantation | Naic, Cavite | Joint Venture | FEPI |
| Manila Southwoods | Carmona and GMA Cavite | Joint Venture | FEGDI/FEPI |
| | | | |
| D. Batangas | | | |
| Domaine Le Jardin | Laurel, Batangas | None | Twin Lakes |
| Lucerne at Domaine Le Jardin | Laurel, Batangas | None | Twin Lakes |
| Vineyard Residences | Laurel, Batangas | None | Twin Lakes |
| The Belvedere | Laurel, Batangas | None | Twin Lakes |
| Vineyard Manor | Laurel, Batangas | None | Twin Lakes |
| Magnificat Executive Village | Lipa, Batangas | Joint Venture | FEPI |
| Newport Hills | Lian, Batangas | Joint Venture | FEPI |
| Nasugbu Harbour Town | Nasugbu, Batangas | Joint Venture | FEPI |
| Residencia Lipa | Lipa, Batangas | Joint Venture | FEPI |
| Tierra Vista | Lipa, Batangas | Joint Venture | FEPI |
| Palmridge Point | Talisay, Batangas | Joint Venture | FEPI |
| Windsor Heights | Tagaytay | Joint Venture | FEPI |
| | | | |
| E. Bulacan | | | |
| Goldridge Estate | Guiguinto, Bulacan | Joint Venture | FEPI |
| Plaridel Heights | Plaridel, Bulacan | Joint Venture | FEPI |
| | | | |
| F. Antipolo City | | | |
| Forest Hills (now Eastland Heights) | Antipolo City | Joint Venture | FEPI |
| | | | |
| G. Baguio City | | | |
| Northpointe | Baguio City | Joint Venture | FEPI |
| | | | |
| H. Naga City, Camarines Sur | | | |
| Monte Cielo De Naga | Naga City | Joint Venture | FEPI |
| Monte Cielo De Peñafrancia | Naga City | Joint Venture | FEPI |
| | | | |
| I. Quezon | | | |
| Puerto Del Mar | Lucena City | Joint Venture | FEPI |
| | | | |
| **VISAYAS** | | | |
| J. Malay, Aklan | | | |
| Belmont Hotel Boracay | Malay, Aklan | None | GERI |

| | | | |
|---|---|---|---|
| Chancellor Hotel Boracay | Malay, Aklan | None | GERI |
| Newcoast Boutique Hotel | Malay, Aklan | Joint Venture | GERI/OPI |
| Newcoast Shophouse District | Malay, Aklan | Joint Venture | GERI/OPI |
| Newcoast Village | Malay, Aklan | None | OPI |
| Oceanway Residences | Malay, Aklan | None | GERI |
| Ocean Garden Villas | Malay, Aklan | None | GERI |
| Savoy Hotel Boracay | Malay, Aklan | None | GERI |
| Fairways & Bluewater | Boracay, Aklan | None | FEPI |
| | | | |
| K. Iloilo | | | |
| Sta. Barbara Heights Residential Estate | Sta. Barbara, Iloilo | Joint Venture | GERI |
| | | | |
| **MINDANAO** | | | |
| L. Cagayan De Oro | | | |
| Mountain Meadows | Cagayan De Oro | Joint Venture | FEPI |

The GERI Group has hotel properties in Boracay and Laurel, Batangas as listed below:

A. Fairways and Bluewater in Boracay, Malay, Aklan

| BUILDING NAME |
|---|
| Villa Maria |
| Villa Margarita |
| Villa Michaela |
| Villa Lucia |
| Villa Catalina |
| Villa Vittoria |
| Villa Muligan |

B. Savoy Hotel Boracay in Boracay Newcoast, Malay, Aklan

C. Belmont Hotel Boracay in Boracay Newcoast, Malay, Aklan

D. Twin Lakes Hotel in Laurel, Batangas

The GERI Group has retail and office buildings for lease, as listed below:

| BUILDING NAME | LOCATION |
|---|---|
| Alabang West Parade | Las Piñas City |
| Southwoods Mall | Biñan, Laguna |
| Southwoods Office Towers | Biñan, Laguna |
| Twin Lakes Shopping Village | Laurel, Batangas |
| Renaissance 1000 (Office Tower) | Pasig City |

## ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to certain lawsuits or claims arising from the ordinary course of business. The management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements, and thus, no provision has been made for these contingent liabilities.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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

# PART II – OPERATIONAL AND FINANCIAL INFORMATION

## ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDERS' MATTERS

**Market price information**

The common shares of the Company are traded on the Philippine Stock Exchange ("**PSE**") under the symbol of GERI.

| | **Philippine Stock Exchange** | |
|---|---|---|
| | **Closing Price per Share (₱) 1.20 as of December 27, 2019** | |
| **2020** | **High** | **Low** |
| First Quarter | 1.20 | 0.66 |
| **2019** | **High** | **Low** |
| First Quarter | 1.35 | 1.28 |
| Second Quarter | 1.48 | 1.42 |
| Third Quarter | 1.44 | 1.40 |
| Fourth Quarter | 1.29 | 1.25 |
| **2018** | **High** | **Low** |
| First Quarter | 1.58 | 1.5 |
| Second Quarter | 1.22 | 1.17 |
| Third Quarter | 1.15 | 1.10 |
| Fourth Quarter | 1.13 | 1.05 |
| **2017** | **High** | **Low** |
| First Quarter | 0.98 | 0.97 |
| Second Quarter | 1.31 | 1.23 |
| Third Quarter | 1.53 | 1.51 |
| Fourth Quarter | 1.44 | 1.42 |

The market capitalization of GERI as of 27 December 2019 based on the closing price at Php1.20 per share of GERI's shares at that date, was approximately Php13.183 billion. The price information as of the close of the latest practicable trading date 30 April 2020 is Php0.82 per share.

*Stockholders*

GERI has a total of about 4,208 common shareholders as of December 31, 2019.

**TOP 20 STOCKHOLDERS AS OF DECEMBER 31, 2019**

| | STOCKHOLDER'S NAME | NO. OF SHARES | % OF OWNERSHIP |
|---|---|---|---|
| 1 | MEGAWORLD CORPORATION | 9,042,732,139[1] | 82.311 |
| 2 | PCD NOMINEE CORPORATION (FILIPINO) | 1,506,860,077 | 13.716 |
| 3 | PRYCE CORPORATION | 198,732,000 | 1.809 |
| 4 | PGI RETIREMENT FUND, INC | 42,436,500 | 0.386 |
| 5 | FIL-ESTATE MANAGEMENT INC. | 38,000,159 | 0.346 |
| 6 | F. YAP SECURITIES, INC. | 32,947,000 | 0.300 |
| 7 | PCD NOMINEE CORPORATION (FOREIGN) | 27,672,722 | 0.252 |
| 8 | GREENFIELD DEVELOPMENT CORPORATION | 8,640,000 | 0.079 |
| 9 | JOHN T. LAO | 8,000,100 | 0.073 |
| 10 | THE ANDRESONS GROUP INC. | 8,000,000 | 0.073 |
| 11 | LUCIO W. YAN | 5,755,000 | 0.052 |
| 12 | ROMEO G. ROXAS | 3,716,000 | 0.034 |
| 13 | AVESCO MARKETING | 3,512,106 | 0.032 |
| 14 | WILBUR CHAN | 2,611,825 | 0.024 |
| 15 | GILMORE PROPERTY MARKETING ASSOCIATES, INC. | 1,983,000 | 0.018 |
| 16 | FEDERAL HOMES, INC. | 1,939,860 | 0.018 |
| 17 | FRITZ L. DY | 1,813,500 | 0.017 |
| 18 | DYNALAND PROPERTIES & DEVELOPERS, INC. | 1,700,001 | 0.015 |
| 19 | MAXIMINO S. UY &/OR LIM HUE HUA | 1,478,400 | 0.013 |
| 20 | EQL PROPERTIES, INC. | 1,317,420 | 0.012 |

## 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

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

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.

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, 2019 amounting to Php11.8 billion, Php10.08 billion in December 31, 2018, and Php8.6 billion in December 31, 2017 are 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.

**Recent Sales 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 (2$^{nd}$ 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 options to key company executives to subscribe to 100 million common shares of the Company at an exercise price of Php1.50 (3$^{rd}$ 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 (4$^{th}$ 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.

- As of 31 December 2019, none of the Option Holders has exercised the options granted to them under the ESOP, and no underlying shares have been subscribed nor fully paid for by the Option Holders in connection therewith.

- The 1st and 2nd Tranches of the ESOP expired on 15 February 2019 and 17 February 2020, respectively. Thus, as of 30 April 2020, a total of two hundred million (200,000,000) common shares of unexercised options remain valid under the ESOP.

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

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**<u>Key Performance Indicators</u>**

### LIQUIDITY RATIOS

| | December 31, 2019 | December 31, 2018 | December 31, 2017, as restated |
|---|---|---|---|
| Current Ratio | 3.72 | 3.93 | 4.46 |
| Quick Ratio | 1.15 | 1.11 | 0.92 |

*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 + Contract Assets/ 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

| | December 31, 2019 | December 31, 2018 | December 31, 2017, as restated |
|---|---|---|---|
| Debt to Total Assets | 33% | 32% | 34% |
| Equity to Total Assets | 67% | 68% | 66% |
| Debt to Equity | 50% | 48% | 51% |
| Asset to Equity | 1.50 | 1.48 | 1.51 |

*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.

## ACTIVITY RATIOS

| | December 31, 2019 | December 31, 2018 | December 31, 2017, as restated |
|---|---|---|---|
| Assets Turnover | 12.18% | 13.84% | 11.79% |

*Assets Turnover*
It measures the level of capital investment relative to sales volume.

## PROFITABILITY RATIOS

| | December 31, 2019 | December 31, 2018 | December 31, 2017, as restated |
|---|---|---|---|
| Return on Equity | 5.58% | 5.96% | 6.16% |
| Return on Assets | 4.00% | 3.81% | 3.55% |
| Earnings per Share | ₱ 0.136 | ₱ 0.136 | ₱ 0.132 |

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

*Return on Assets (Net Income/Average 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.

## INTEREST COVERAGE RATIO

| | December 31, 2019 | December 31, 2018 | December 31, 2017, as restated |
|---|---|---|---|
| Interest Coverage | ₱10.10 | ₱13.35 | ₱23.33 |

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

## Others

As of the year ended December 31, 2019, 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.

## Management's Discussion and Analysis of Results of Operations and Financial Conditions

In 2019, the Group adopted PFRS 16, Leases, and its related interpretation IFRIC 4, Determining Whether an Arrangement Contains a Lease, Standard Interpretations Committee (SIC) 15, Operating Leases – Incentives, and SIC 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the consolidated financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained Earnings as of January 1, 2019. Accordingly, comparative information was not restated with respect to this adoption.

The Group also adopted the following Philippine Interpretations Committee (PIC) Question & Answer (Q&A) retrospectively in accordance with PAS 8:

- PIC Q&A No. 2019-09, Accounting for Prepaid Rent or Rent Liability Arising from Straight-lining under PAS 17, Leases, on Transition to PFRS 16 and the Related Deferred Tax Effects, clarifies the accounting treatment for any existing prepaid rent or rent liability in transition from PAS 17 to PFRS 16 using the modified retrospective approach and the related deferred tax effects .

- PIC Q&A No. 2019-11, Determining the Current Portion of an Amortizing Loan/Lease Liability, clarifies the proper classification/presentation between current and non-current portion of amortizing loan/lease liability in the statement of financial position.

- PIC Q&A No. 2019-12, Determining the Lease Term under PFRS 16, Leases, clarifies the lease term upon consideration of an option to either extend or terminate the lease.

**Review for the year ended December 31, 2019**

**Results of Operations**

For the year ended December 31, 2019 the Group's consolidated net income amounted to Php 1.92 billion, 11.2% increase from December 31, 2018 net income of Php1.72 billion.

Consolidated total revenues amounted to Php8.5 billion. The bulk of revenues came from real estate sales, rental income, hotel operations, and finance and other income. The Group's registered sales came from sale of lots in 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, Eastland Heights in Antipolo, Rizal and sale of condominium units in Oceanway Residences One, Ocean Garden Villas, Savoy Hotel, Belmont Hotel and Chancellor Hotel in Boracay, Holland Park and Tulip Gardens in Manila Southwoods and Vineyard Residences and The Manor in Twin Lakes, Tagaytay.

Total cost and expenses amounted to Php6.5 billion, mainly from cost of real estate sales, cost of rentals and services, cost of hotel operations, 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 Php50 billion as of December 31, 2019 compared to Php46 billion as of December 31, 2018 posted an increase of Php3.7 billion or 8%.

Cash and cash equivalents increased by 48% mainly due to collection and availment of new Interest bearing loans and borrowings, from Php1.8 billion as of December 2018 to Php2.6 billion as of December 2019. Trade and other receivables increased by 71% mainly due to installment sales recognized for the period and reclassification from Contract Asset due to completion of projects. Contract assets decreased by 56%, from Php3.5 billion as of December 2018 to Php1.5 billion as of December 2019 due completion of projects. Advances to related parties increased by 15% due to additional advances given to related parties. Investment in associates decreased by

13% due to sale of ownership in BNHGI. Other current and non-current assets increased by 8%, from Php3.2 billion as of December 2018 to Php3.5 billion as of December 2019, mainly due to increase in Advances to contractors and suppliers. Right of use-asset increased by 100% due to adoption of PFRS16 new standard on leases using the modified retrospective approach as allowed under the transitional provisions of the standard. Property Plant and Equipment increased by 21% mainly due to space used for the administration of hotel operations.

Interest bearing loans and borrowings increased by 24% or Php964 million as of December 2019 as compared to December 2018 due to availment of new interest bearing loan. Trade and other payables increased by 10% mainly due to increase in payables to contractors and suppliers. Customer's Deposits increased from Php1.2 billion as of December 31, 2018 to Php1.3 billion as of December 31, 2019 or 14% mainly due to collection from existing buyers and new reservation sales. Contract liabilities increased by 15% due to additional sales from uncompleted projects with lower percentage of completion than percentage of collection. Redeemable preferred shares decreased by 25% due to redemption of shares. Deferred Tax Liability also increased from Php1.27 billion in December 2018 to Php1.57 billion in December 2019. The 23% increase is due to increase in taxable temporary difference. Retirement benefit obligation increased by 114% from Php50 million in December 2018 to Php107 million in December 2018 due to higher accrual of retirement benefit. Other non-current liabilities decreased from Php1.2 billion to Php683 million mainly due to decrease in retention payable. Lease liabilities increased by 100% due to adoption of PFRS16 new standard on leases using the modified retrospective approach as allowed under the transitional provisions of the standard. Due to joint venture partners decreased by 10% due remittance of their share from the projects.

Shareholders' Equity increased from Php31.2 billion to Php33.2 billion mainly due to net income for the year.

**Material Changes in the year ended December 31, 2019 Financial Statements**
***(Increase/decrease of 5% or more versus December 31, 2018)***

**Financial Position**

- 48% increase in Cash and cash equivalents due to collection and availment of new Interest bearing loans and borrowings.
- 71% increase in Trade and other receivable – mainly due to installment real estate sales recognized for the period and reclassification of contract assets for completed projects.
- 56% decrease in Contract assets – due to completion of projects.
- 15% increase in Advances to related parties – additional advances given to related parties.
- 13% decrease on Investment in Associate – due to sale of ownership in BNHGI.
- 8% increase in other current and non-current assets – due to increase in advances to contractors and suppliers.

- 100% increase in Right of use-asset - due to adoption of PFRS16 new standard on leases using the modified retrospective approach as allowed under the transitional provisions of the standard.
- 21% increase in Property Plant and Equipment – due to space used for the administration of hotel operations
- 24% increase in Interest-bearing loans and borrowings – due to availment of new interest bearing loan.
- 10% increase in Trade and other payables – mainly due to increase in payables to contractors and suppliers.
- 14% increase in Customer's deposit – due to collection from existing buyers and new reservation sales.
- 15% increase in Contract liabilities – due to additional sales from uncompleted projects with lower percentage of completion than percentage of collection.
- 25% decrease in Redeemable preferred shares – due to redemption of shares
- 23% increase in Deferred tax liabilities – due to increase in taxable temporary difference
- 114% increase in Retirement benefit obligation – due to increase in accrual of retirement benefit
- 45% decrease in other non-current liability – mainly due to decrease in retention payable.
- 100% increase in Lease liability adoption of PFRS16 new standard on leases using the modified retrospective approach as allowed under the transitional provisions of the standard.
- 10% decrease in Due to Joint Venture Partners – due to remittance of their share in the project.

**Results of Operations**

- 5% decrease in Real estate sales – mainly due to decrease on real estate sales recognized for the period.
- 75% increase in Rental income – mainly due to increase in occupancy and additional leasable space due to completion of Southwoods Office Towers in Southwoods City, Laguna.
- 263% increase in Hotel Operations – due to increase in occupancy rate for the period and opening of Twin Lakes Hotel in Laurel, Batangas.
- 28% increase in Service Income – due to increase in income from golf course maintenance.
- 28% increase in Finance and other income – due to increase on interest income on real estate sales.
- 100% increase in Gain on sale of investment on associate – due to sale of investment in BNHGI.
- 7% decrease in Cost of real estate sales – mainly due to decrease on real estate sales for the period

- 64% increase in Cost of rental and services – mainly due to increase in depreciation from additional property held for lease and increase in cost of services.
- 180% increase in Cost of hotel operations – mainly due to increase in hotel revenue and opening of Twin Lakes Hotel.
- 34% increase in Operating expenses – mainly due to additional operating expenses from the expansion of hotel operation.
- 45% decrease in Equity share in net losses of associates – due to decrease in net loss of associates recognized for the year.
- 39% increase in Finance cost and other charges – due to interest from new loans.

**Management's Discussion and Analysis of Results of Operations and Financial Conditions**

In 2018, the Group adopted PFRS 15, Revenue from Contracts with Customers in accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

The Group's adoption of PFRS 15 has resulted in changes in its accounting policies and adjustments to the amounts recognized in the consolidated financial statements. The Group has applied PFRS 15 retrospectively to all outstanding contracts as of January 1, 2017 in accordance with the standard's transitional provisions.

The Group also adopted the following Philippine Interpretations Committee (PIC) Question & Answer (Q&A) retrospectively in accordance with PAS 8:

- PIC Q&A No. 2018-11, Classification of Land by Real Estate Developer, requires real estate developers to classify land based on management's intention and apply the appropriate accounting treatment as required by relevant standards.

- PIC Q&A No. 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry, provides guidelines on the application of PFRS 15 for real estate transactions. Relative to this, in accordance with SEC Memorandum Circular (MC) No. 14 series of 2018, the Company has deferred the application of certain provisions of PIC Q&A No. 2018-12 particularly those with respect to the accounting for significant financing component and the exclusion of uninstalled materials and land in the calculation of percentage of completion.

- PIC Q&A No. 2018-15, PAS 1– Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current, clarifies how the advances to contractors should be classified in the statement of financial position

The effects of the adoption of PFRS 15 and various PIC Q&A on the assets, liabilities and equity accounts are shown in Note 2.1 of the Audited Financial Statements.

Also, the Group changed its collection criterion in revenue recognition from 25% to 10%. The Group reassessed the historical payment pattern of its customer and determined the 10% as estimate that collection of total contract price is reasonably assured. This change in percentage of collection threshold was adopted in 2018 and applied prospectively.

**<u>Review for the year ended December 31, 2018</u>**

### Results of Operations

For the year ended December 31, 2018 the Group's consolidated net income amounted to Php 1.72 billion, a 13.8% increase from December 31, 2017 net income of Php1.51 billion (inclusive of Php113 million non-recurring gain). Without the non-recurring gain, net income increased by 23% year-on-year. There is no non-recurring gain for the year ended December 31, 2018.

Consolidated total revenues amounted to Php7.5 billion. The bulk of revenues came from real estate sales, rental income, hotel operations, 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 and Manor in Twin Lakes, Tagaytay.

Total cost and expenses amounted to Php5.8 billion, mainly from cost of real estate sales, cost of rentals and services, cost of hotel operations, 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 Php46billion as of December 31, 2018 compared to Php44.6 billion as of December 31, 2017 posted an increase of Php1.4 billion or 3%.

Cash and cash equivalents decreased by 44% mainly due to payment of construction costs, partial payment of Interest bearing loans and borrowings and partial redemption of preferred shares, from Php3.2 billion as of December 2017 to Php1.8 billion as of December 2018. Trade and other receivables increased by 57% mainly due to increase in installment sales recognized from completed projects. Contract assets increased by 50%, from Php2.4 billion as of December 2017 to Php3.5 billion as of December 2018 due additional sales from uncompleted projects with higher percentage of completion than percentage of collection. Advances to related parties decreased by 25% due to payments made by related parties and impairment of certain advances that were recorded in books prior to 2011. Investment property increased by 11% due to new land acquisition and additional construction costs of Twin Lakes Hotel and Southwoods Office Towers. Other current and non-current assets decreased by 16%, from Php3.9 billion as of December 2017 to Php3.2 billion as of December 2018, mainly due to decrease in Advances to contractors and suppliers.

Interest bearing loans and borrowings decreased by 20% or Php995 million as of December 2018 as compared to December 2017 due to partial payment of principal of interest bearing loan. Trade and other payables increased by 18% mainly due to increase in payables to contractors and suppliers. Customer's Deposits decreased from Php1.5 billion as of December 31, 2017 to Php1.2 billion as of December 31, 2018 or 20% mainly due to adoption prospectively of the new percentage of collection in recognizing installment sales. Contract liabilities increased by 9% due to additional sales from uncompleted projects with lower percentage of completion than percentage of collection. Advances from related parties increased by 7% due to additional advances from parent company. Redeemable preferred shares decreased by 20% due to initial redemption of Twin Lakes Corporation. Deferred Tax Liability also increased from Php829.7 million in December 2017 to Php1.27 billion in December 2018. The 53% increase is due to increase in taxable temporary difference. Retirement benefit obligation decreased by 22% from Php63 million in December 2017 to Php50 million in December 2018 due to lower accrual of retirement benefit. Other non-current liabilities increased from Php1.11 billion to Php1.23 billion mainly due to increase in retention payable.

Shareholders' Equity increased from Php29.4 billion to Php31.1 billion mainly due to net income for the year.

**Material Changes in the year ended December 31, 2018 Financial Statements**
***(Increase/decrease of 5% or more versus December 31, 2017 as restated)***

**Financial Position**

- 44% decrease in Cash and cash equivalents - due to payment of construction costs, partial payment of Interest bearing loans and borrowings and partial redemption of preferred shares.
- 57% increase in Trade and other receivable – mainly due to increase in installment real estate sales recognized from completed projects.
- 50% increase in Contract assets – due to additional sales from uncompleted projects with higher percentage of completion than percentage of collection.
- 25% decrease in Advances to related parties – due to payments made by related parties and impairment of certain advances that were recorded in books prior to 2011
- 11% increase in Investment property – due to new land acquisition and additional construction costs of Twin Lakes Hotel and Southwoods Office Towers.
- 16% decrease in other current and non-current assets – due to decrease in advances to contractors and suppliers.
- 20% decrease in Interest-bearing loans and borrowings – due to partial payment of principal of interest bearing loan.

- 18% increase in Trade and other payables – mainly due to increase in payables to contractors and suppliers.
- 20% decrease in Customer's deposit – mainly due to adoption prospectively of the new percentage of collection in recognizing installment sales
- 9% increase in Contract liabilities – due to additional sales from uncompleted projects with lower percentage of completion than percentage of collection
- 7% increase in Advances from related parties – due to additional advances from parent company.
- 20% decrease in Redeemable preferred shares – due to initial redemption of Twin Lakes Corporation
- 53% increase in Deferred tax liabilities – due to increase in taxable temporary difference
- 22% decrease in Retirement benefit obligation – due to lower accrual of retirement benefit
- 12% increase in other non-current liability – mainly due to increase in retention payable.

**Results of Operations**

- 21% increase in Real estate sales – due to adoption prospectively of the new percentage of collection in recognizing installment sales.
- 165% increase in Rental income – mainly due to increase in occupancy and additional leasable area because of completion of Southwoods Office Towers at Southwoods City in Laguna and land lease of Landers at Alabang West in Las Piñas
- 36% decrease in Hotel Operations – mainly due to Boracay closure for 6 months.
- 153% increase in Finance and other income – due to increase on interest income on real estate sales.
- 100% decrease in Gain on sale of investment on associate – due to no sale of investment for the period
- 27% increase in Cost of real estate sales – due to increase on real estate sales for the period
- 45% increase in Cost of rental and services – mainly due to increase in depreciation from additional property held for lease and increase in cost of services.
- 28% decrease in Cost of hotel operations – mainly due to decrease in hotel revenue.
- 22% increase in Operating expenses – mainly due to increase in marketing and commission expenses and other administrative expenses.
- 440% increase in Equity share in net losses of associates – due to increase in net loss of associates recognized for the year.
- 86% increase in Finance cost and other charges – due to interest expense from the additional loan obtained in last quarter of 2017.

- 20% increase in Income tax expense due to increase in taxable income

**Management's Discussion and Analysis of Results of Operations and Financial Conditions**

**Review for the year ended December 31, 2017, *as restated***

**Results of Operations**
**(Comparing balances for the year ended December 31, 2017, as restated and for the year ended December 31, 2016, as restated)**

For the year ended December 31, 2017 as restated, the Group's consolidated net income amounted to Php1.51 billion (inclusive of Php113 million non-recurring gain), a 33% increase from December 31, 2016 as restated net income of Php1.14 billion (inclusive of Php82.5 million non-recurring gain). Without the non-recurring gain, its net income rose to Php1.4 billion, a 33% increase year-on-year.

Consolidated total revenues amounted to Php6.2 billion. The bulk of revenues came from real estate sales, hotel operations, 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 Php4.6 billion, mainly from cost of real estate sales, cost of hotel operations and operating expenses resulting from aggressive marketing activities as well as other administrative and corporate overhead.

**Financial Condition**

**(Comparing balances as of December 31, 2017 as restated and as of January 1, 2017 as restated)**

The Group's financial position remained stable and with adequate capacity to support its growth. Total Assets of Php44.6 billion as of December 31, 2017 as restated, compared to Php40.6 billion as of January 1, 2017 as restated, posted an increase of Php4 billion or 10%.

Trade and other receivables increased by 48% mainly due to increase in installment real estate sales recognized from completed projects. Contract assets increased by 43% due to additional sales from uncompleted projects with higher percentage of completion than percentage of collection. 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 18% 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 restated due to additional interest bearing loan. Trade and other payables increased by 32% mainly due to increase in payables to contractors and suppliers. Customer's Deposits decreased from Php1.7 billion as of January 1, 2017 as restated to Php1.5 billion as of December 31, 2017 as restated or 15% decrease due to recognized installment sales for the period. Advances from related parties increased by 79% due to additional advances from parent company. Due to joint venture partners decreased by 16% due to payment to joint venture partners. Deferred Tax Liability also increased from Php557.9 million as of January 1, 2017 as restated to Php829.8 million in December 2017 as restated. The 49% increase is due to increase in taxable temporary difference. Retirement benefit obligation increased by 5% from Php61 million in January 1, 2017 as restated to Php64 million in December 2017 as restated due to accrual of additional retirement benefit. Other non-current liabilities increased from Php1.06 billion to Php1.11 billion mainly due to increase in retention payable.

Shareholders' Equity increased from Php27.7 billion to Php29.4 billion due to net income for the year.

**Material Changes in the year ended December 31, 2017 as restated Financial Statements**

**Financial Position**
***(Increase/decrease of 5% or more versus as of January 1, 2017 as restated)***

- 48% increase in Trade and other receivable – mainly due to increase in installment sales recognized during the year.
- 43% increase in Contract assets - due to additional sales from uncompleted projects with higher percentage of completion than percentage of collection.
- 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
- 18% 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.
- 32% 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.
- 16% decrease in Due to joint venture partners – due to payment to joint venture partners.
- 49% 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
- 5% increase in Other non-current liability – mainly due to increase in retention payable.

**Results of Operations**
***(Increase/decrease of 5% or more versus December 31, 2016 as restated)***

- 34% increase in Real estate sales – mainly due to increase in percentage of completion of on-going projects.
- 54% increase in Rental income – mainly due to increase in occupancy of leasable area and opening of Southwoods Mall at Southwoods City in Laguna.
- 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
- 30% decrease in Finance and other income – due to decrease on interest income on real estate sales
- 25% increase in Cost of real estate sales – due to increase in real estate sales recognized for the year.
- 40% increase in Cost of rental and services – mainly due to increase in depreciation from additional investment property and cost of services.
- 24% increases in Operating expenses - mainly due to increase in marketing and 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.
- 83% increase in Finance cost and other charges – due to interest expense from additional interest bearing loan and day one loss.
- 44% increase in Income tax expense due to increase in taxable income

## ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2019, December 31, 2018, and December 31, 2017 of the Company are incorporated herein duly signed by the external auditors.

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

**Independent Public Accountants**

The Company's Board of Directors approved, on June 27, 2019, 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 2019. For the years 2016 to 2020, the handling partner has been Mr. Renan Piamonte, an Audit and Assurance partner of Punongbayan and Araullo.

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

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 at its subsidiaries.

**External Audit Fees and Services**

For the audit of the Company's financial statements and services that are normally provided by the external auditors in connection with statutory and regulatory filings for the calendar year reports of 2019, 2018, and 2017, the fee was approximately Php1.49 million, Php1.358 million, and Php1.294 million, respectively.

The external auditors rendered no other assurance and related services to the Company other than the items discussed above.

# PART III – CONTROL AND COMPENSATION INFORMATION

## ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

The table sets forth each member of the Company's Board:

| Name | Age | Citizenship | Position |
|---|---|---|---|
| Andrew L. Tan | 70 | Filipino | Chairman & CEO |
| Lourdes T. Gutierrez-Alfonso | 56 | Filipino | Managing Director |
| Monica T. Salomon | 51 | Filipino | President |
| Kevin Andrew L. Tan | 40 | Filipino | Director |
| Ferdinand T. Santos | 69 | Filipino | Director |
| Wilbur L. Chan | 60 | Filipino | Director for Clubs and Hotels |

| | | | |
|---|---|---|---|
| Rollence Elloyd S. Chiusinco[2] | 31 | Filipino | Director |
| Jesus B. Varela | 63 | Filipino | Lead Independent Director |
| Cresencio P. Aquino | 66 | Filipino | Independent Director |

The table below sets forth GERI's executive officers in addition to its executive directors listed above (as of December 31, 2019):

| Name | Age | Citizenship | Position |
|---|---|---|---|
| Lailani V. Villanueva | 40 | Filipino | Chief Finance Officer, Compliance Officer, /Treasurer, Corporate Information Officer |
| Marie Emelyn Gertrudes C. Martinez | 55 | Filipino | EVP, Head of Legal |
| Karen B. Maderazo | 41 | Filipino | VP, Head of Human Resources and Corporate Admin |
| Felipe L. Mangubat Jr.[3] | 54 | Filipino | VP, Head of Operations Management |
| Maria Carla T. Uykim | 43 | Filipino | Corporate Secretary and Assistant Corporate Information Officer |
| Rolando D. Siatela | 59 | Filipino | Asst. Corporate Secretary |

**Board of Directors**

**ANDREW L. TAN,** Filipino, 70 years old, was first elected as Chairman of the Board and Chief Executive Officer of the Company on 12 January 2011. Mr. Tan serves as Chairman of the Board of Alliance Global Group, Inc. (AGI) which has interests in the food and beverage business, real estate, tourism-entertainment and gaming, quick-service restaurant business and infrastructure development. Dr. Tan is the founder of the Company's parent company, Megaworld Corporation and has served as its Chairman and President since its incorporation in 1989. He pioneered the live-work-play-learn model in real estate development through Megaworld/s integrated township communities, fueling the growth of the business process outsourcing (BPO) industry. He embarked on the development of integrated tourism and leisure estates through the Company and is Chairman of the Company's subsidiaries Twin Lakes Corporation, Southwoods Mall, Inc. and Oceanfront Properties, Inc. Mr. Tan is also Chairman of Megaworld subsidiaries Empire East Land Holdings, Inc. and Suntrust Properties, Inc. and AGI's brandy subsidiary, Emperador, Inc. He is a director of Travellers International Hotel Group, Inc which

[2] Mr. Chiusinco resigned on 30 April 2020.
[3] Felipe . Mangubat was appointed Head of Operations Management on 16 January 2020.

owns Resorts World Manila, and Golden Arches Development Corporation, the master franchise holder of McDonald's in the Philippines. Dr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

**LOURDES T. GUTIERREZ-ALFONSO,** 56 years old**,** was first elected as Director of the Company on 30 June 2011. Effective 01 March 2015, she was appointed as the Company's Managing Director to oversee the Company's business performance and lead in the formulation of overall strategic direction, plans, and policies for the Company. She is currently the Chief Operating Officer of Megaworld Corporation and is a member of Megaworld's Management Executive Committee. She is currently the Director and Vice Chairman of Suntrust Properties, Inc. and a director of Megaworld Cebu Properties, Inc., Megaworld Resort Estates, Inc., Oceantown Properties, Inc., Prestige Hotels & Resorts, Inc., Oceanfront Properties, Inc., Megaworld Global-Estate, Inc., Twin Lakes Corporation, and FEUDC. She is a trustee and Corporate Secretary of Megaworld Foundation, Inc. Ms. Gutierrez is a certified public accountant by profession and graduated Cum Laude from the Far Eastern University with the degree of Bachelor of Science major in Accounting.

**MONICA T. SALOMON,** 51 years old, has served as Director, President, and Chief Operating Officer of the Company since 01 March 2015. Prior to joining GERI, she was Head of Megaworld's Corporate Management Division and spearheaded strategic real estate acquisitions and joint ventures for the Megaworld Group. She was also a member of Megaworld's Management Executive Committee, which is responsible for the development and execution of the Group's corporate strategies, policies and initiatives. She holds directorships in various Megaworld and GERI subsidiaries significant of which are Twin Lakes Corporation, Megaworld Global-Estate, Inc., Southwoods Ecocentrum Corp., Southwoods Mall, Inc., Prestige Hotels & Resorts, Inc., Luxury Global Hotels and Leisure, Inc., Belmont Hotel Boracay, Inc., Savoy Hotel Boracay, Inc., Twin Lakes Hotel, Inc., and Megaworld Foundation, Inc. She obtained her Bachelor of Laws in 1994 from the University of the Philippines.

**WILBUR L. CHAN,** Filipino, 60 years old, was first elected as Director of the Company on 12 January 2011. He also serves as Director for Hotels and Clubs and is currently the Chairman of Fairways & Bluewater Resorts Golf & Country Club, Inc. and Fil-Estate Urban Development Corporation. He is also a director in Southwoods Ecocentrum Corporation and Uni-Asia Properties, Inc. He has a Master's Degree in Business Management from the Asian Institute of Management, a Master's Degree in National Security Administration (Silver Medalist) from the National Defense College of the Philippines and a Degree in Command & General Staff Course at Command & General Staff College.

**FERDINAND T. SANTOS,** Filipino, 69 years old, was elected as Director of the Company since its incorporation in 1994. He served as the Company's President until his retirement on 28 February 2015. He is also the President of Fil-Estate Management Inc., Fil-Estate Development Inc., Fairways & Bluewater Resort Golf & Country Club, Inc., Newport Hills Golf Club, Inc., St. Benedict Realty & Development Inc., Royal Jade Memorial Inc., and Mt. Zion Memorial, Inc. He graduated from Arellano University with Bachelor of Arts degree in 1970 and took his Bachelor of Laws at San Beda College where he graduated Valedictorian and Magna Cum Laude in 1974. He was a topnotcher in the 1974 Philippine Bar (2nd Place).

**KEVIN ANDREW L. TAN**, 40 years old, was elected as Director on 26 June 2014. He is the Chief Executive Officer and Vice Chairman of Alliance Global Group and Chief Strategy Officer of Megaworld Corporation. He is concurrently a director of listed companies, Emperador Inc. and Empire East Land Holdings, Inc. He is also a director of various companies in the Alliance Global Group including Emperador Distillers, Inc., Alliance Global Brands, Inc., Anglo Watsons Glass, Inc., Yorkshire Holdings, Inc., The Bar Beverage, Inc., Emperador Brandy, Inc., Southwoods Ecocentrum Corp., Twin Lakes Corporation, and Southwoods Mall, Inc., Belmont Hotel Boracay, Inc., and Twin Lakes Hotel, Inc. He has over 11 years of experience in retail leasing, marketing, and operations having served as head of Megaworld Lifestyle Malls for over 11 years. Mr. Tan holds a bachelor's degree in Business Administration major in Management, from the University of Asia and the Pacific.

**ROLLENCE ELLOYD S. CHIUSINCO[4],** Filipino, 31, is an Assistant Vice-President of Megaworld Corporation since September 2018. He is primarily responsible for various business development activities of Megaworld, and also acts as director and corporate secretary for some of the company's affiliates. Prior to Megaworld, he worked at Resorts World Manila as Executive Assistant to the Chairman and Assistant Manager of Corporate Planning from 2014-2018. He holds Bachelor's degrees in BS Management Engineering & AB Economics from the Ateneo de Manila University as well as a Master's degree in Business Administration from Singapore Management University.

**JESUS B. VARELA**, Filipino, 63 years old, was elected as Lead Independent Director on 30 June 2016. He is also an Independent Director of Megaworld Corporation. He graduated with an Economics degree in 1979 from Ateneo de Manila University. He is also the Chairman of the Philippine Chamber of Commerce and Industry, GS1 Philippines (Barcode of the Philippine), and New Lights Technologies, Inc. He is the President and CEO of the Advancement of Workers' Awareness Regarding Employment (AWARE) Foundation, Inc., and President of Philippine Greek Business Council and Philippine Peru Business Council. He is also the Director General of the International Chamber of Commerce Philippines (ICC-Philippines), Receiver of J-Phil Marine Shipping Inc., and Member of the Committee for Accreditation of Cargo Surveying Companies. Mr. Varela has more than 20 years of experience in the fields of marketing, human resources, international labor affairs, agriculture, and commerce, among others. He has done executive work with the Department of Agriculture, National Food Authority Council, Philippine Genetics, Inc., National Irrigation Administration, Philippine Planters Products, National Agri-Business Corporation, Agriculture Anti-Smuggling Task Force, and Nautical Highway Board. He served as Labor Attaché to Kobe, Japan, to the Commonwealth of Northern Marianas Island, and to Athens. Mr. Varela obtained his bachelor's degree in Economics from Ateneo De Manila University. He attended training courses in Labor Administration and Policy Formulation under the International Labor

[4] Mr. Chiusinco resigned on 30 April 2020.

Organization/ARPLA program, the Corporate Planning Course at the Center for Research Communication, Foreign Exchange Training by Metro Bank and Forex Club of the Philippines, Systems Analysis by the Presidential Management Staff, Asian Productivity Seminar, and other in-house seminars conducted by the Department of Labor and the Development Academy of the Philippines.

**CRESENCIO P. AQUINO**[5], Filipino, 66 years old, is currently the Managing Partner of The Law Firm of CP Aquino & Partners. He is a graduate of San Sebastian College Manila with degrees in Bachelor of Arts and Bachelor of Laws. Atty. Aquino has extensive experience in both the public and private sectors as follows: Director of Clark Development Corporation from 2012 to 2016, Independent Director of Global-Estate Resorts, Inc. from 2010 to 2012, Independent Director of Suntrust Home Developers, Inc. from 2009 to 2012, Corporate Legal Counsel of MBF Card and One Card Corporation from June 1998 to May 2004, Special Assistant and Chief Legal Counsel of the Government Service Insurance System from September 1992 to June 1998, member of the Board of Directors of the Meat Packaging Corporation of the Philippines from September 1992 to June 1998, Personnel and Administrative Manager, Corporate Secretary and Chief Legal Counsel of ComSavings Bank from September 1992 to June 1998, Executive Director of the Department of Interior and Local Government (DILG) from 1998 to 1992, and Ex-Officio Commissioner of the DILG with the Housing and Land Use Regulatory Board also for the same period. Atty. Aquino has extensive experience in public service, investment banking, corporate practice specializing in joint venture undertaking, corporate restructuring, real estate funds, mergers and acquisitions, risk management, innovative restructuring, due diligence & valuations and enhancing shareholder value. He was formerly an Associate Professor with the San Sebastian College. Atty. Aquino has been a member of the Integrated Bar of the Philippines since 1978 and is also a member of the Capitol Bar Association, Knights of Columbus and the Lawyers League of the Philippines.

**Key Executive Officers** (other than those presented above under "Directors")

**LAILANI V. VILLANUEVA**, Filipino, 40 years old, is the Chief Finance Officer, Compliance Officer and Treasurer of the Company. She is a Certified Public Accountant with over 19 years of experience in accounting and finance. Prior to joining the Company, she was Senior Accounting Manager for Megaworld Corporation from 2007 until 2010. In 2011, she joined Global-Estate Resorts, Inc. as Comptroller. She is concurrently the Chief Financial Officer of Fairways and Bluewater Resort Golf and Country Club, Inc., Director and Chief Finance Officer of Southwoods Ecocentrum Corporation, Director of Southwoods Mall Inc., and Megaworld Global-Estate, Inc. Ms. Villanueva obtained her bachelor's degree in Accountancy from the College of the Immaculate Concepcion.

**MARIE EMELYN GERTRUDES C. MARTINEZ,** Filipino, 55 years old, is the Executive Vice President for Legal. She is also the Corporate Secretary of Fil-Estate Golf and Development, Inc., Fairways and Bluewater Resort Golf and Country Club,

[5] Atty. Cresencio P. Aquino was elected as Independent Director on February 15, 2018 to serve the unexpired term of Mr. Gerardo C. Garcia, who passed away on January 26, 2018.

Inc. and Newport Hills Golf Club, Inc. Before joining GERI, she was the Chief of Staff of the Office of COMELEC Commissioner Augusto C. Lagman. She was a Partner in Ponce Enrile Reyes & Manalastas (PECABAR) Law Offices and in Nisce Mamuric Guinto Rivera & Alcantara Law Offices. She was admitted to the Bar in 1991 after obtaining her Bachelor of Laws degree from University of the Philippines and her Bachelor of Arts major in Economics from the same university.

**KAREN B. MADERAZO,** Filipino, 41 years old, is Vice President and Head of the Company's Human Resources and Corporate Administration Division. She joined the Company on 1 October 2013. Ms. Maderazo served as the Senior Manager for Human Resources Division of Megaworld Corporation from May 2005 to September 2013. She also worked for Suyen Corporation from June 2003 to February 2005 as Training Specialist of the Personnel Department. She graduated from Centro Escolar University with a bachelor's degree in Science in Psychology. She pursued graduate studies in Psychology at the Centro Escolar University.

**FELIPE L. MANGUBAT, JR.,** Filipino, 54 years old, was appointed Vice President and Head of Operations Management of the Company in January 2020. A civil engineer by profession, he has extensive experience in project development, having managed various residential, commercial, institutional and industrial projects in the Philippines and in the Middle East Prior to his appointment, he served as Project Development Head of the Company's Boracay Newcoast and Twin Lakes projects

**MARIA CARLA T. UYKIM,** 43 years old, Filipino, is the Corporate Secretary and Assistant Corporate Information Officer. She is also the Corporate Secretary of San Vicente Coast, Inc., Northwin Properties, Inc., and Maple Grove Land, Inc., and a Director and Corporate Secretary of Luxury Global Malls, Inc. She is currently a Vice President for the Corporate Advisory and Compliance Division of Megaworld Corporation and is a member of Megaworld Corporation's Management Executive Committee. Prior to joining Megaworld Corporation, Atty. Uykim was an Associate at Andres Marcelo Padernal Guerrero and Paras law offices from August 2005 to April 2007, where she specialized in labor and corporate law, and at ACCRA Law from February 2003 to January 2004, where she practiced immigration law. She also served as Chief of Staff of Congresswoman Remedios L. Petilla from July 2004 until June 2005. She obtained her Juris Doctor Degree from the Ateneo De Manila School of Law and is a graduate of the double degree program of De La Salle University, with a Bachelor of Arts in Psychology and a Bachelor of Science in Marketing Management.

**ROLANDO D. SIATELA**, 59 years old, Filipino, was elected as Assistant Corporate Secretary of the Company on 12 January 2011. He concurrently serves in PSE-listed companies, Alliance Global Group, Inc., Megaworld Corporation, and Emperador Inc. as Assistant Corporate Secretary, and in Suntrust Home Developers, Inc. as Corporate Secretary and Corporate Information Officer. He is also the Assistant Vice President of Megaworld Corporation. Prior to joining Megaworld Corporation, he was employed as Administrative and Personnel Officer with Batarasa Consolidated, Inc. He is a member of the board of Asia Finest Cuisine, Inc., and serves as Corporate Secretary of ERA Real Estate Exchange, Inc., and Oceanic Realty Group International, Inc.

**<u>Significant Employees</u>**

The Corporation considers its entire workforce as significant employees. The Corporation relies on the contribution of all employees to achieve its corporate objectives.

**Family Relationships**

Chairman Andrew L. Tan is the father of director Kevin Andrew L. Tan.

**<u>Involvement in Certain Legal Proceedings (over the past 5 years)</u>**

The Company has no knowledge of any of the following events that occurred during the past five (5) years up to the date of this report, which are material to an evaluation of the ability or integrity of any director or executive officer:

a. None of them has been involved in any bankruptcy petition.

b. None of them has been convicted by final judgment in a criminal proceeding or being subject to a pending criminal proceeding both domestic and foreign.

c. None of them has been subject to any order, judgment or decree of any court of competent jurisdiction (domestic or foreign) permanently or temporarily, enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities.

d. None of them has been found by a domestic or foreign court of competent jurisdiction (in a civil action), the commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation.

## ITEM 10. EXECUTIVE COMPENSATION

**KEY EXECUTIVE OFFICERS**

| NAME | POSITION | YEAR | SALARY | Other Annual Compensation |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| A. Five Most Highly Compensated Officers<br><br>Monica T. Salomon<br>Wilbur L. Chan<br><br>Emelyn C. Martinez<br>Jennifer L. Romualdez *<br>Felipe L. Mangubat Jr. **<br><br>Lailani V. Villanueva | <br><br><br>President<br>Director for Hotels and Clubs<br>EVP-Legal<br>SVP – Operations<br>Head of Operations Management<br>Chief Finance Officer | Estimate 2020 | 24.7 Million | 6.0 Million |
| B. All other officers and directors as a group unnamed<br><br>** Until February 29, 2020*<br>*** Starting March 1, 2020* | | | 15.9 Million | 3.7 Million |

| NAME | POSITION | YEAR | SALARY | Other Annual Compensation |
|---|---|---|---|---|
| C. Five Most Highly Compensated Officers<br><br>Monica T. Salomon<br>Wilbur L. Chan<br><br>Emelyn C. Martinez<br>Jennifer L. Romualdez<br>Lailani V. Villanueva | <br><br><br>President<br>Director for Hotels and Clubs<br>EVP - Legal<br>SVP – Operations<br>Chief Finance Officer | 2019 | 23.5 Million | 5.2 Million |
| D. All other officers and directors as a group unnamed | | | 15.1 Million | 3.5 Million |

| NAME | POSITION | YEAR | SALARY | Other Annual Compensation |
|---|---|---|---|---|
| A. Five Most Highly Compensated Officers<br><br>Monica T. Salomon<br>Wilbur L. Chan<br><br>Emelyn C. Martinez<br>Jennifer L. Romualdez<br>Lailani V. Villanueva | <br><br><br>President<br>Director for Hotels and Clubs<br>EVP-Legal<br>SVP – Operations<br>Chief Finance Officer | 2018 | 22.5 Million | 4.5 Million |
| B. All other officers and directors as a | | | 12.3 Million | 2.5 Million |

| | | | | |
|---|---|---|---|---|
| group unnamed | | | | |

The Company adopts a performance-based compensation scheme. The total annual compensation of the President and top four highly compensated executives amounted to Php28.7 million in 2019, Php27 million in 2018, and Php25.7 million in 2017. The projected total annual compensation for the current year is Php30.7 million.

The total annual compensation paid to all senior personnel from AVP and up are all payable in cash. The total annual compensation includes the basic salary and 13th month pay.

The Company has no other arrangement with regard to the remuneration of its existing officers aside from the compensation received as herein stated.

**COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS**

The Directors receive reasonable per diem.

On September 23, 2011, the Board of Directors of the Company approved an Executive Stock Option Plan and this was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the Plan is to enable the key Company executives, directors and senior officers who are largely responsible for its further growth and development to obtain an ownership interest in the Company, thereby encouraging long-term commitment to the Company. The Plan is being administered by the Corporate Governance Committee of the Board.

Under the Plan, the Company shall initially reserve for exercise of stock options up to 500 million common shares of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within ten (10) years from the adoption of the Plan and may be exercised within seven (7) years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for twelve (12) months immediately preceding the date of grant. The options shall vest within three (3) years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three (3) year period. The Company shall receive cash for the stock options.

Pursuant to this 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 February 18, 2013, the Company granted another stock option to the same set of directors and officers for the same number of shares (100 million shares) at an exercise price of Php1.69 (2nd Tranche). On March 7, 2014, the Company granted another stock option to the same set of directors and officers for the same number of shares (100 million shares) at an exercise price of Php1.50 (3rd Tranche). On March 9, 2015 and June 17, 2016, the Company granted another stock option to certain key officers of the company for 50

Million shares for each tranche at an exercise price of Php1.65 (4th Tranche) and Php1.00 (5th Tranche), respectively.

The PSE approved the Company's application for the listing of 100,000,000 common shares (1st Tranche), an additional 100,000,000 common shares (2nd Tranche), an additional 100,000,000 common shares (3rd Tranche), an additional 50,000,000 common shares (4th Tranche), and an additional 50,000,000 common shares (5th Tranche) on May 25, 2012, January 28, 2014, June 17, 2014, July 24, 2015, and November 11, 2016, respectively.

An Option Holder may exercise in whole or in part his vested Option provided, that, an Option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said Option's Life Cycle.

As of 31 December 2019, none of the Option Holders has exercised the options granted to them under the ESOP, and no underlying shares have been subscribed nor fully paid for by the Option Holders in connection therewith.

The 1st and 2nd Tranches of the ESOP expired on 15 February 2019 and 17 February 2020, respectively. Thus, as of 30 April 2020, a total of two hundred million (200,000,000) common shares of unexercised options remain valid under the ESOP.

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

**<u>Security Ownership of Certain Record and Beneficial Owners</u>**

Security ownership of certain record and beneficial owners owning more than 5% of any class of the Corporation's voting securities as of 31 December 2019 are as follows:

| Title of Class | Name, address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent (Based in total shares) |
|---|---|---|---|---|---|
| Common Shares | Megaworld Corporation 30th Floor, Alliance Global Tower, 36th St. corner 11th Avenue, Uptown | Megaworld Corporation | Filipino | 9,042,732,139 | 82.31% |

| | | | | | |
|---|---|---|---|---|---|
| | Bonifacio, Taguig City | | | | |
| Common shares | PCD Nominee Corporation (Filipino) 6/F MKSE Bldg. Ayala Avenue, Makati City | Various shareholders | Filipino | 1,506,860,077 | 13.71% |

Other than the persons identified above, there are no other beneficial owners of more than 5% of the Company's outstanding capital stock that are known to the Company.

**Security Ownership of Management**

As of December 31, 2019 common shares owned by all directors and executive officers of GERI, representing original issues and stock dividends are as follows:

| Title of Class | Name of Beneficial Owner | Amount and nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Common | Dr. Andrew L. Tan | 2 (direct) | Filipino | 0.00% |
| Common | Lourdes T. Gutierrez-Alfonso | 2 (direct) | Filipino | 0.00% |
| Common | Monica T. Salomon | 1 (direct) | Filipino | 0.00% |
| Common | Kevin Andrew L. Tan | 2 (direct) | Filipino | 0.00% |
| Common | Ferdinand T. Santos | 30,007 (direct) | Filipino | 0.00% |
| Common | Wilbur L. Chan | 2,611,826 (direct) | Filipino | 0.02% |
| Common | Rollence Elloyd S. Chiusinco[6] | 1 (direct) | Filipino | 0.00% |
| Common | Jesus B. Varela | 1 (direct) | Filipino | 0.00% |
| Common | Cresencio P. Aquino[7] | 1 (direct) | Filipino | 0.00% |
| **Other Executive Officers** | | | | |
| Common | Lailani V. Villanueva | 0 | Filipino | n/a |
| Common | Marie Emelyn Gertrudes C. Martinez | 0 | Filipino | n/a |
| Common | Karen B. Maderazo | 0 | Filipino | n/a |
| Common | Felipe L. Mangubat, Jr. | 0 | Filipino | n/a |
| Common | Maria Carla T. Uykim | 0 | Filipino | n/a |
| Common | Rolando D. Siatela | 0 | Filipino | n/a |

[6] Mr. Chiusinco resigned on 30 April 2020.
[7] Atty. Cresencio P. Aquino was elected as Independent Director on February 15, 2018 to serve the unexpired term of Mr. Gerardo C. Garcia, who passed away on January 26, 2018.

**Voting Trust Holders of 5% or more**

The Company knows of no persons holding more than 5% of common shares under voting trust or similar agreement.

**Changes in Control**

There has been no change in the control of the Company since it became a subsidiary of Megaworld Corporation.

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Group, in its regular conduct of business, has entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real estate properties, construction contracts, and development, management, marketing, leasing and administrative service agreements.

Advances granted to and obtained from subsidiaries, associates and other related parties are for purposes of working capital requirements.

Except with respect to the Related Party Transactions as discussed in Note 25 to the consolidated financial statements as at December 31, 2019 and 2018 and for each of the last three (3) years ended December 31, 2019, there was no transaction during the last three (3) years involving the Company in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of the Company's total outstanding shares and members of their immediate family had a material interest.

# PART IV – EXHIBITS AND SCHEDULES

## ITEM 13. EXHIBITS AND REPORTS ON SEC FORM 17-C

**a.) Exhibits**

The following exhibit is incorporated by reference in this report:

2019 Consolidated Audited Financial Statements

No other exhibits, as indicated in the Index to Exhibits are either applicable to the Company or require no answer.

**b.) Reports on SEC Form 17-C**

The following reports on SEC Form 17-C were among those filed during the last six months period covered by this report:

1. Standard Disclosures

    - Public Ownership Report
    - Foreign Ownership Report
    - List of Top 100 Stockholders
    - Notice of Annual Stockholders' Meeting
    - Attendance of GERI Directors and Officers on ACGR Seminar
    - 27 June 2019 Organizational Board Meeting – election of Corporate Officers
    - 27 June 2019 Annual Stockholders' Meeting & Election of Board of Directors
    - Certification of Independent Director
    - Compliance Report on Corporate Governance

2. Press Releases

    - 21 January 2020 Press Release – "GERI Launches Townhouse, Duplex Villas in Southwoods City"
    - 8 January 2020 Press Release – "GERI Sells Houses in Cavite's Arden Botanical Estate"
    - 11 November 2020 Press Release – "GERI's 9-mo profit jumps 26% to P1.6B"
    - 13 September 2019 Press Release – "Megaworld, GERI to Jointly Develop New Sustainable Township in Cavite"
    - 6 August 2019 Press Release – "Megaworld's GERI Earnings Up 37% in 1H19"
    - 27 June 2019 Press Release – "Megaworld's GERI Combined Rental & Hotel Income seen to double this year"
    - 14 May 2019 Press Release – "Megaworld's GERI Profit Up 8% in 1Q; rental income soared 108% to new quarterly record high"
    - 15 April 2019 Press Release – "Megaworld's GERI Earnings Soar 14% to P1.7B in 2018"
    - 28 March 2019 Press Release – "Megaworld's GERI Launches 4th Residential Condo in Twin Lakes"
    - 26 February 2019 Press Release – "GERI to Build Second Tower of Tulip Gardens in Southwoods City"

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized in Taguig City on_____________, 2020.

By:

| | |
|---|---|
| **Atty. Monica T. Salomon**<br>President<br>*Principal Operating Officer* | **Lailani V. Villanueva**<br>Chief Finance Officer<br>*Principal Financial Officer* |
| **Atty. Maria Carla T. Uykim**<br>Corporate Secretary | **Gervinna Z. Lopez-Garde**<br>Controller<br>*Principal Accounting Officer* |

SUBSCRIBED AND SWORN to before me this_________day of _________ 2019, affiants exhibiting to me their valid identification card, as follows:

| NAMES | TIN/UMID/ SSS No. | Expiration Date | Place of Issue |
|---|---|---|---|
| Monica T. Salomon | TIN 182-240-560-000 | -- | Manila |
| Lailani V. Villanueva | CRN 0002-1985165-5 | -- | Manila |
| Maria Carla T. Uykim | TIN 159-353-280-000 | -- | -- |
| Gervinna Z. Lopez-Garde | TIN 242-194-123-000 | -- | NCR |

Doc. No:_____;
Page No.:_____;
Book No.:_____;
Series of 2020.

# C O V E R   S H E E T
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S - 9 4 0 0 4 4 6 2

COMPANY NAME

GLOBAL-ESTATE RESORTS INC AND SUBSIDIARIES

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

16TH FLR ALLIANCE GLOBAL TOWER 36TH ST COR. 11TH AVENUE UPTOWN BONIFACIO TAGUIG CITY

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

### COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| lvvillanueva@global-estate.ph | 328-4374 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 4,208 | June - 29 | December - 31 |

### CONTACT PERSON INFORMATION

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| LAILANI V. VILLANUEVA | lvvillanueva@global-estate.ph | 328-4374 | N/A |

### CONTACT PERSON'S ADDRESS

16F Alliance Global Tower, 36th St. cor. 11th Ave., Uptown Bonifacio, Taguig City

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

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

# GLOBAL-ESTATE RESORTS, INC.

16th Floor, Alliance Global Tower, 36th St. cor. 11th Ave. Uptown Bonifacio Taguig City 1634 Philippines
Telephone No. 328-4374

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Global-Estate Resorts, Inc and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative to do so.

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

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

**Andrew L. Tan**
Chairman of the Board

**Monica T. Salomon**
President

**Lailani V. Villanueva**
Chief Finance Officer

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 22 88

# Report of Independent Auditors

**The Board of Directors and Stockholders**
**Global-Estate Resorts, Inc. and Subsidiaries**
***(A Subsidiary of Megaworld Corporation)***
16th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City

## *Opinion*

We have audited the consolidated financial statements of Global-Estate Resorts, Inc. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

## *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of a Matter – Subsequent Event Relating to COVID 19 Outbreak*

We draw attention to Note 35 in the notes to the consolidated financial statements, which describes the likely negative impact of the business disruption as a result of the coronavirus outbreak to the Group's financial condition and performance after the end of the reporting period. Our opinion is not modified with respect to this matter.

### *Key Audit Matter*

Key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### *Revenue Recognition on Real Estates Sales and Determination of Related Costs*

*Description of the Matter*

The Group's revenue recognition process, policies and procedures on real estate sales are significant to our audit because these involve the application of significant judgment and estimation. In addition, real estate sales and costs of real estate sales amounted to P6.1 billion or 71.7% of consolidated revenues and income and P2.8 billion or 48.7% of consolidated cost and expenses, respectively, for the year ended December 31, 2019. Areas affected by revenue recognition, which requires significant judgments and estimates, include determining when a contract will qualify for revenue recognition and measuring the progress of the development of real estate projects which defines the amount of revenue to be recognized and determining the amount of actual costs incurred as cost of real estate sales. An error in the application of the requirements of said standard, and management judgment and estimate could cause a material misstatement in the consolidated financial statements.

The Group's policy for revenue recognition on real estate sales, and the basis of significant judgments and estimates are disclosed in Notes 2 and 3 to the consolidated financial statements. The breakdown of real estate sales and costs of real estate sales are also disclosed in Notes 19 and 22, respectively, to the consolidated financial statements.

### *How the Matter was Addressed in the Audit*

We have obtained an understanding of the revenue recognition policy regarding real estate sales transactions and the related significant business processes of the Group.

Our procedures in testing the appropriateness and proper application of the Group's revenue recognition policy and process include tests of mathematical accuracy and completeness of supporting contract summary, examination of supporting documents of a sample of agreements, and performing overall analytical review of actual results.

In addressing the risks of material misstatements in revenue recognition, we have performed inspection of sample agreements for compliance with a set of criteria for revenue recognition and testing of controls over contract approval. We have also tested the reasonableness of management's judgment in determining the probability of collection of the consideration in a contract which involves a historical analysis of customer payment pattern and behaviour.

Relative to the Group's measurement of progress towards complete satisfaction of performance obligation using the input method, we have tested the progress reported for the year in reference to the actual costs incurred relative to the total budgeted project development costs. Our procedures include test of controls over recognition and allocation of costs of projects and direct examination of supporting documents. We have also performed physical inspection of selected projects under development to assess if the completion based on costs is not inconsistent with the physical completion of the project. In testing the reasonableness of budgetary estimates, we have ascertained the qualification of project engineers who prepared the budgets and reviewed the actual performance of completed projects with reference of their budgeted costs.

In relation to cost of real estate sales, we obtained an understanding of the Group's cost accumulation process and performed tests of the relevant controls. On a sampling basis, we traced costs accumulated to supporting documents such as invoices and accomplishment reports from the contractors and official receipts.

### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audits resulting in this independent auditors' report is Renan A. Piamonte.

**PUNONGBAYAN & ARAULLO**

**By: Renan A. Piamonte**
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 8116553, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 107805-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-037-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 3, 2020

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2019 AND 2018**
***(Amounts in Philippine Pesos)***

| | Notes | | 2019 | | 2018 |
|---|---|---|---|---|---|
| **A S S E T S** | | | | | |
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | 5 | **P** | **2,621,473,415** | P | 1,771,302,129 |
| Trade and other receivables - net | 6 | | **6,209,875,485** | | 4,317,791,166 |
| Contract assets | 19 | | **1,170,459,539** | | 2,394,582,192 |
| Advances to real estate property owners | 9 | | **216,002,876** | | 185,671,144 |
| Advances to related parties | 25 | | **877,657,824** | | 765,235,996 |
| Inventories - net | 7 | | **18,113,657,372** | | 17,933,958,120 |
| Prepayments and other current assets - net | 8 | | **3,243,469,287** | | 2,711,194,521 |
| Total Current Assets | | | **32,452,595,798** | | 30,079,735,268 |
| **NON-CURRENT ASSETS** | | | | | |
| Trade and other receivables - net | 6 | | **2,912,871,916** | | 1,011,835,265 |
| Contract assets | 19 | | **372,090,385** | | 1,135,598,493 |
| Advances to real estate property owners | 9 | | **1,064,682,154** | | 1,054,255,698 |
| Investments in associates - net | 10 | | **732,147,690** | | 841,219,811 |
| Investment property - net | 11 | | **10,784,728,402** | | 10,537,727,720 |
| Property and equipment - net | 12 | | **1,014,528,721** | | 835,946,902 |
| Right-of-use assets - net | 13 | | **168,872,252** | | - |
| Other non-current assets - net | 14 | | **265,221,717** | | 533,712,009 |
| Total Non-current Assets | | | **17,315,143,237** | | 15,950,295,898 |
| **TOTAL ASSETS** | | **P** | **49,767,739,035** | P | 46,030,031,166 |

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing loans | 15 | **P 1,555,555,898** | P 1,574,466,462 |
| Trade and other payables | 16 | **3,950,962,606** | 3,599,888,181 |
| Contract liabilities | 19 | **657,575,886** | 272,728,734 |
| Advances from related parties | 25 | **1,001,596,228** | 1,001,894,838 |
| Redeemable preferred shares | 26 | **251,597,580** | 251,597,580 |
| Customers' deposits | 2 | **1,237,825,216** | 961,429,898 |
| Lease liabilities | 13 | **64,456,834** | - |
| Total Current Liabilities | | **8,719,570,248** | 7,662,005,693 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing loans | 15 | **3,468,750,000** | 2,486,305,898 |
| Contract liabilities | 19 | **575,066,812** | 796,103,382 |
| Due to joint venture partners | 17 | **356,227,254** | 395,424,643 |
| Redeemable preferred shares | 26 | **503,195,160** | 754,792,740 |
| Customers' deposits | 2 | **109,903,499** | 221,175,156 |
| Retirement benefit obligation | 23 | **107,158,224** | 49,995,320 |
| Deferred tax liabilities - net | 24 | **1,566,791,164** | 1,272,105,459 |
| Lease liabilities | 13 | **429,834,849** | - |
| Other non-current liabilities | 18 | **682,643,250** | 1,232,214,997 |
| Total Non-current Liabilities | | **7,799,570,212** | 7,208,117,595 |
| Total Liabilities | | **16,519,140,460** | 14,870,123,288 |
| **EQUITY** | | | |
| Equity attributable to shareholders of the Parent Company: | | | |
| Capital stock | 26 | **10,986,000,000** | 10,986,000,000 |
| Additional paid-in capital | | **4,747,739,274** | 4,747,739,274 |
| Revaluation reserves | 23 | **5,267,483** | 37,130,791 |
| Retained earnings | 26 | **11,819,907,993** | 10,077,036,216 |
| | | **27,558,914,750** | 25,847,906,281 |
| Non-controlling interest | 10 | **5,689,683,825** | 5,312,001,597 |
| Total Equity | | **33,248,598,575** | 31,159,907,878 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 49,767,739,035** | P 46,030,031,166 |

***See Notes to Consolidated Financial Statements.***

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**
***(Amounts in Philippine Pesos)***

| | Notes | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| **REVENUES AND INCOME** | | | | |
| Real estate sales | 19 | **P 6,062,091,916** | P 6,370,555,422 | P 5,256,759,191 |
| Hotel operations | 19 | **813,928,144** | 223,958,354 | 349,155,484 |
| Rental income | 11, 14, 19 | **746,691,845** | 426,536,057 | 161,258,835 |
| Service income | 2 | **172,020,165** | 134,709,245 | 134,082,713 |
| Gain on sale of investment in associate | 10 | **188,514,452** | - | 113,069,227 |
| Finance and other income | 20 | **468,175,002** | 365,750,049 | 144,664,766 |
| | | **8,451,421,524** | 7,521,509,127 | 6,158,990,216 |
| **COSTS AND EXPENSES** | | | | |
| Cost of real estate sales | 22 | **2,794,278,385** | 3,018,683,870 | 2,384,998,130 |
| Cost of hotel operations | 22 | **442,819,864** | 158,162,392 | 218,820,207 |
| Cost of rentals and services | 22 | **331,144,642** | 202,125,585 | 139,524,416 |
| Other operating expenses | 21 | **1,737,131,547** | 1,292,381,362 | 1,055,916,041 |
| Equity share in net losses of associates | 10 | **101,665** | 183,393 | 33,983 |
| Finance costs and other charges | 20 | **436,396,570** | 314,018,949 | 169,194,179 |
| | | **5,741,872,673** | 4,985,555,551 | 3,968,486,956 |
| **PROFIT BEFORE TAX** | | **2,709,548,851** | 2,535,953,576 | 2,190,503,260 |
| **TAX EXPENSE** | 24 | **792,811,959** | 811,666,522 | 675,965,664 |
| **NET PROFIT** | | **1,916,736,892** | 1,724,287,054 | 1,514,537,596 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Remeasurements of retirement benefit plan | 23 | **( 45,519,012 )** | 27,619,383 | 12,753,035 |
| Tax income (expense) | 24 | **13,655,704** | ( 6,663,399 ) | ( 3,495,352 ) |
| | | **( 31,863,308 )** | 20,955,984 | 9,257,683 |
| **TOTAL COMPREHENSIVE INCOME** | | **P 1,884,873,584** | P 1,745,243,038 | P 1,523,795,279 |
| **Net profit attributable to:** | | | | |
| Parent Company's shareholders | | **P 1,489,054,664** | P 1,495,316,796 | P 1,453,107,596 |
| Non-controlling interest | | **427,682,228** | 228,970,258 | 61,430,000 |
| | | **P 1,916,736,892** | P 1,724,287,054 | P 1,514,537,596 |
| **Total comprehensive income attributable to:** | | | | |
| Parent Company's shareholders | | **P 1,457,191,356** | P 1,516,272,780 | P 1,462,365,279 |
| Non-controlling interest | | **427,682,228** | 228,970,258 | 61,430,000 |
| | | **P 1,884,873,584** | P 1,745,243,038 | P 1,523,795,279 |
| **EARNINGS PER SHARE** | 27 | | | |
| Basic | | **P 0.136** | P 0.136 | P 0.132 |
| Diluted | | **P 0.131** | P 0.132 | P 0.128 |

***See Notes to Consolidated Financial Statements.***

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**
***(Amounts in Philippine Pesos)***

| | Attributable to Owners of the Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Capital Stock** (See Note 26) | **Additional Paid-in Capital** | **Revaluation Reserves** (See Note 23) | **Retained Earnings** (See Notes 2, 23 and 26) | **Total** | **Non-controlling Interest** (See Note 26) | **Total Equity** |
| Balance at January 1, 2019 | | | | | | | |
| As previously reported | P 10,986,000,000 | P 4,747,739,274 | P 37,130,791 | P 10,077,036,216 | P 25,847,906,281 | P 5,312,001,597 | P 31,159,907,878 |
| Effect of application of PFRS 16 | - | - | - | 252,924,160 | 252,924,160 | - | 252,924,160 |
| As restated | 10,986,000,000 | 4,747,739,274 | 37,130,791 | 10,329,960,376 | 26,100,830,441 | 5,312,001,597 | 31,412,832,038 |
| Share-based employee compensation | - | - | - | 892,953 | 892,953 | - | 892,953 |
| Cash dividends | - | - | - | - | - | ( 50,000,000 ) | ( 50,000,000 ) |
| Total comprehensive income (loss) for the year | - | - | ( 31,863,308 ) | 1,489,054,664 | 1,457,191,356 | 427,682,228 | 1,884,873,584 |
| Balance at December 31, 2019 | **P 10,986,000,000** | **P 4,747,739,274** | **P 5,267,483** | **P 11,819,907,993** | **P 27,558,914,750** | **P 5,689,683,825** | **P 33,248,598,575** |
| Balance at January 1, 2018 | | | | | | | |
| As previously reported | P 10,986,000,000 | P 4,747,739,274 | P 16,174,807 | P 8,589,547,273 | P 24,339,461,354 | P 5,103,106,874 | P 29,442,568,228 |
| Effect of application of PFRS 9 | - | - | - | ( 11,135,011 ) | ( 11,135,011 ) | - | ( 11,135,011 ) |
| As restated | 10,986,000,000 | 4,747,739,274 | 16,174,807 | 8,578,412,262 | 24,328,326,343 | 5,103,106,874 | 29,431,433,217 |
| Share-based employee compensation | - | - | - | 3,307,158 | 3,307,158 | - | 3,307,158 |
| Cash dividends | - | - | - | - | - | ( 20,075,535 ) | ( 20,075,535 ) |
| Total comprehensive income for the year | - | - | 20,955,984 | 1,495,316,796 | 1,516,272,780 | 228,970,258 | 1,745,243,038 |
| Balance at December 31, 2018 | P 10,986,000,000 | P 4,747,739,274 | P 37,130,791 | P 10,077,036,216 | P 25,847,906,281 | P 5,312,001,597 | P 31,159,907,878 |
| Balance at January 1, 2017 | P 10,986,000,000 | P 4,747,739,274 | P 6,917,124 | P 7,126,400,364 | P 22,867,056,762 | P 4,852,728,436 | P 27,719,785,198 |
| Additions during the year | - | - | - | - | - | 188,948,438 | 188,948,438 |
| Share-based employee compensation | - | - | - | 10,039,313 | 10,039,313 | - | 10,039,313 |
| Total comprehensive income for the year | - | - | 9,257,683 | 1,453,107,596 | 1,462,365,279 | 61,430,000 | 1,523,795,279 |
| Balance at December 31, 2017 | P 10,986,000,000 | P 4,747,739,274 | P 16,174,807 | P 8,589,547,273 | P 24,339,461,354 | P 5,103,106,874 | P 29,442,568,228 |

***See Notes to Consolidated Financial Statements.***

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**
***(Amounts in Philippine Pesos)***

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | **P 2,709,548,851** | P 2,535,953,576 | P 2,190,503,260 |
| Adjustments for: | | | | |
| Depreciation and amortization | 21 | **352,579,942** | 195,819,007 | 129,832,310 |
| Finance costs | 20 | **236,057,259** | 205,395,234 | 98,101,836 |
| Gain on sale of investment in associate | 10 | **( 188,514,452 )** | - | ( 113,069,227 ) |
| Finance income | 20 | **( 159,732,966 )** | ( 134,799,289 ) | ( 47,104,806 ) |
| Impairment losses | 8, 10, 25 | **93,552,635** | 18,675,002 | - |
| Share-based employee compensation | 26 | **892,953** | 3,307,158 | 10,039,313 |
| Equity share in net losses of associates | 10 | **101,665** | 183,393 | 33,983 |
| Gain on bargain purchase | 1 | **-** | ( 10,774,664 ) | - |
| Operating profit before working capital changes | | **3,044,485,887** | 2,813,759,417 | 2,268,336,669 |
| Decrease (increase) in trade and other receivables | | **( 3,001,311,234 )** | ( 1,872,836,011 ) | 1,048,130,612 |
| Decrease (increase) in contract assets | | **1,987,630,761** | ( 1,169,646,617 ) | ( 314,819,506 ) |
| Decrease (increase) in inventories | | **( 300,588,211 )** | 598,110,398 | ( 2,844,331,553 ) |
| Decrease (increase) in prepayments and other current assets | | **( 1,127,026,225 )** | 244,137,247 | ( 720,441,268 ) |
| Increase in advances to real estate property owners | | **( 79,955,577 )** | ( 58,745,996 ) | ( 214,063,519 ) |
| Increase in trade and other payables | | **542,494,885** | 574,954,340 | 536,954,325 |
| Increase (decrease) in contract liabilities | | **163,810,582** | 88,237,057 | ( 30,591,296 ) |
| Increase (decrease) in customers' deposits | | **165,123,661** | ( 288,605,799 ) | ( 260,421,006 ) |
| Increase in retirement benefit obligation | | **7,234,860** | 10,512,214 | 9,006,786 |
| Increase (decrease) in other non-current liabilities | | **( 286,031,117 )** | 126,622,966 | 112,047,405 |
| Cash generated from (used in) operations | | **1,115,868,272** | 1,066,499,216 | ( 410,192,351 ) |
| Interest received | | **38,813,894** | 108,490,206 | 28,243,890 |
| Interest paid | | **( 324,023,530 )** | ( 272,173,519 ) | ( 147,854,045 ) |
| Cash paid for income taxes | | **( 163,890,165 )** | ( 125,823,877 ) | ( 119,167,557 ) |
| Net Cash From (Used in) Operating Activities | | **666,768,471** | 776,992,026 | ( 648,970,063 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to: | | | | |
| Investment property | 11 | **( 332,932,921 )** | ( 1,135,608,754 ) | ( 1,395,218,110 ) |
| Property and equipment | 12 | **( 121,987,813 )** | ( 66,616,825 ) | ( 123,361,564 ) |
| Cash advances granted to related parties | 25 | **( 304,494,937 )** | ( 153,787,928 ) | ( 128,965,167 ) |
| Proceeds from sale of investment in associate | 10 | **297,484,908** | - | 297,454,675 |
| Collections of advances to related parties | 25 | **103,637,827** | 393,915,633 | 116,037,437 |
| Decrease in other non-current assets | | **3,413,393** | 5,404,331 | 209,071,644 |
| Proceeds from disposals of property and equipment | 12 | **699,184** | 14,256 | 1,202,829 |
| Net Cash Used in Investing Activities | | **( 354,180,359 )** | ( 956,679,287 ) | ( 1,023,778,256 ) |
| *Balance brought forward* | | **P 312,588,112** | ( P 179,687,261 ) | ( P 1,672,748,319 ) |

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| *Balance carried forward* | | **P 312,588,112** | ( P 179,687,261 ) | ( P 1,672,748,319 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from availment of interest-bearing loans | 33 | **2,500,000,000** | 50,000,000 | 2,000,000,000 |
| Repayments of interest-bearing loans | 33 | **( 1,536,466,462 )** | ( 1,045,157,127 ) | ( 871,153,846 ) |
| Redemption of preferred shares | 26 | **( 251,597,580 )** | ( 251,597,580 ) | - |
| Repayment of lease liabilities | 33 | **( 115,965,842 )** | - | - |
| Repayments of advances from related parties | 25 | **( 103,187,691 )** | ( 340,289,172 ) | ( 12,989,000 ) |
| Cash advances obtained from related parties | 25 | **94,800,749** | 395,008,400 | 416,228,361 |
| Cash dividends paid | | **( 50,000,000 )** | ( 20,075,535 ) | - |
| Proceeds from issuance of shares of stock of a subsidiary | 10 | **-** | - | 188,948,438 |
| Net Cash From (Used in) Financing Activities | | **537,583,174** | ( 1,212,111,014 ) | 1,721,033,953 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **850,171,286** | ( 1,391,798,275 ) | 48,285,634 |
| **NET INCREASE IN CASH DUE TO ACQUISITION OF A SUBSIDIARY** | | **-** | 4,922,420 | - |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **1,771,302,129** | 3,158,177,984 | 3,109,892,350 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **P 2,621,473,415** | P 1,771,302,129 | P 3,158,177,984 |

**Supplemental Information on Non-cash Investing and Financing Activities**

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate and other assets. Moreover, reclassifications of inventories, property and equipment, and investment property have been made. These non-cash activities are not reflected in the consolidated statements of cash flows (see Notes 7 and 11).

In 2019, the Group recognized right-of-use assets and lease liabilities amounting to P228.1 million and P610.3 million, respectively (see Note 2).

***See Notes to Consolidated Financial Statements.***

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2019 AND 2018**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

Global-Estate Resorts, Inc. (the Company or GERI) was incorporated in the Philippines on May 18, 1994. It is primarily engaged in the development of integrated tourism and leisure estates, and integrated lifestyle communities with residential, retail, hotel and/or leisure components. The Company also engages in land acquisitions and maintains an inventory of raw land for future development.

On July 26, 2017, the Philippine Securities and Exchange Commission (SEC) approved the change in the Company's registered office and principal place of business from 7th Floor, Renaissance Towers, Meralco Avenue, Pasig City to 16th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City. The related approval from the Bureau of Internal Revenue (BIR) was obtained on October 3, 2017.

The Company is a subsidiary of Megaworld Corporation (Megaworld or the parent company) with an ownership interest of 82.31%. Megaworld is 67.00% owned by Alliance Global Group, Inc. (AGI), the Company's ultimate parent company.

Megaworld was incorporated in the Philippines primarily to engage in the development of large scale, mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. Megaworld is presently engaged in property-related activities such as product design, construction and property management. Megaworld's real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office projects and retail spaces. The registered office of Megaworld, which is also its principal place of business, is located at the 30th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City.

AGI is a holding company with diversified investments in real estate, food and beverage, manufacturing, quick service restaurants and tourism-oriented businesses. AGI's registered office, which is also its primary place of business, is located at the 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Quezon City.

The shares of stock of the Company, Megaworld and AGI are listed at the PSE.

## *1.1 Composition of the Group*

The Company holds interests in the following subsidiaries and associates (collectively, together with the Company, hereinafter referred to as the Group):

| Subsidiaries/Associates | Explanatory Notes | Percentage of Ownership 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| Fil-Estate Properties, Inc. (FEPI) | | 100% | 100% | 100% |
| Aklan Holdings Inc. (AHI) | (a) | 100% | 100% | 100% |
| Blue Sky Airways, Inc. (BSAI) | (a) | 100% | 100% | 100% |
| Fil-Estate Subic Development Corp. (FESDC) | (a) | 100% | 100% | 100% |
| Fil-Power Construction Equipment Leasing Corp. (FPCELC) | (a) | 100% | 100% | 100% |
| Golden Sun Airways, Inc. (GSAI) | (a) | 100% | 100% | 100% |
| La Compaña De Sta. Barbara, Inc. (LCSBI) | (a) | 100% | 100% | 100% |
| MCX Corporation (MCX) | (a) | 100% | 100% | 100% |
| Pioneer L-5 Realty Corp. (PLRC) | (a) | 100% | 100% | 100% |
| Prime Airways, Inc. (PAI) | (a) | 100% | 100% | 100% |
| Sto. Domingo Place Development Corp. (SDPDC) | (a) | 100% | 100% | 100% |
| Fil-Power Concrete Blocks Corp. (FPCBC) | (a) | 100% | 100% | 100% |
| Fil-Estate Industrial Park, Inc. (FEIPI) | (a) | 79% | 79% | 79% |
| Sherwood Hills Development Inc. (SHDI) | (a) | 55% | 55% | 55% |
| Fil-Estate Golf and Development, Inc. (FEGDI) | | 100% | 100% | 100% |
| Golforce, Inc. (Golforce) | (b) | 100% | 100% | 100% |
| Southwoods Ecocentrum Corp. (SWEC) | (b) | 60% | 60% | 60% |
| Philippine Aquatic Leisure Corp. (PALC) | (c) | 60% | 60% | 60% |
| Fil-Estate Urban Development Corp. (FEUDC) | | 100% | 100% | 100% |
| Novo Sierra Holdings Corp. (NSHC) | | 100% | 100% | 100% |
| Elite Communities Property Services, Inc. (ECPSI) | (d) | 100% | 100% | - |
| Savoy Hotel Boracay, Inc. | (e) | 100% | - | - |
| Belmont Hotel Boracay, Inc. | (e) | 100% | - | - |
| Megaworld Global-Estate, Inc. (MGEI) | (f) | 60% | 60% | 60% |
| Twin Lakes Corp. (TLC) | | 51% | 51% | 51% |
| Twin Lakes Hotel, Inc. (TLHI) | (g) | 51% | 51% | - |
| Oceanfront Properties, Inc. (OPI) | | 50% | 50% | 50% |
| Global Homes and Communities, Inc. (GHCI) | | 100% | 100% | 100% |
| Southwoods Mall, Inc. (SMI) | | 51% | 51% | 51% |
| **Associates:** | | | | |
| Fil-Estate Network, Inc. (FENI) | | 20% | 20% | 20% |
| Fil-Estate Sales, Inc. (FESI) | | 20% | 20% | 20% |
| Fil-Estate Realty and Sales Associates Inc. (FERSAI) | | 20% | 20% | 20% |
| Fil-Estate Realty Corp. (FERC) | | 20% | 20% | 20% |
| Nasugbu Properties, Inc. (NPI) | (h) | 14% | 14% | 14% |
| Boracay Newcoast Hotel Group, Inc. (BNHGI) | (h, i) | - | 15% | 15% |

Non-controlling interests (NCI) in 2019 and 2018 represent the interests not held by the Group in FEIPI, SHDI, SWEC, PALC, MGEI, TLC, TLHI, OPI and SMI. In 2017, additional non-controlling interest (NCI) were recognized arising from Megaworld's subscription to SMI's unissued shares.

All subsidiaries and associates were incorporated in the Philippines, operate within the country and are engaged in businesses related to the main business of the Company.

**Explanatory notes:**

(a) Subsidiaries of FEPI; percentage ownership represents effective ownership of GERI.

(b) Subsidiaries of FEGDI; percentage ownership represents effective ownership of GERI.

(c) Subsidiary of SWEC.

(d) Subsidiary acquired in 2018. ECPSI is engaged primarily to manage and administer real estate properties.

(e) Subsidiaries engaged primarily to operate and manage resort hotels.

(f) Subsidiary acquired in prior years primarily to market the Group's projects.

(g) A subsidiary of TLC. The Company is incorporated in 2018 to operate Twin Lakes Hotel, one of the real estate projects of TLC.

(h) Associates because GERI has a representation in the boards of directors.

(i) In 2019, FEPI fully sold its remaining ownership interest in BNHGI.

### *1.2 Business Combinations*

On January 2, 2018, the Company acquired 100% of the issued shares of ECPSI to manage and administer the Group's real estate properties as disclosed in Note 1.1. Aggregate information at acquisition date is as follows:

| | |
|---|---|
| Fair value of assets acquired: | |
| Cash | P 5,109,920 |
| Trade and other receivables | 43,694,405 |
| Prepayments and other current assets | 582,725 |
| Property and equipment – net | 2,024,638 |
| | 51,411,688 |
| Fair value of liabilities assumed | ( 40,449,524) |
| Fair value of net assets | 10,962,164 |
| Fair value of consideration transferred | ( 187,500) |
| Gain on bargain purchase | P 10,774,664 |

The fair value of trade and other receivables approximate their carrying amounts since these are short term in nature. None of the receivables have been impaired and it's expected that the full outstanding balance can be collected. The gain on bargain purchase is presented under Finance and Other Income account in the 2018 consolidated statement of comprehensive income (see Note 20.1).

ECPSI's revenues and net loss since the acquisition date included in the 2018 consolidated statement of comprehensive income amounted to P11.1 million and P10.2 million, respectively.

There is no business acquisition in 2019.

### *1.3 Approval of the Consolidated Financial Statements*

The consolidated financial statements of the Group as of and for the year ended December 31, 2019 (including the comparative consolidated financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Company's Board of Directors (BOD) on April 3, 2020.

## 2. 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.

### *2.1 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 Consolidated 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, the currency of the primary economic environment in which the Group operates.

## *2.2 Adoption of New and Amended PFRS*

*(a) Effective in 2019 that are Relevant to the Group*

The Group adopted for the first time the following PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

| | | |
|---|---|---|
| PAS 19 (Amendments) | : | Employee Benefits – Plan Amendment, Curtailment or Settlement |
| PAS 28 (Amendments) | : | Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures |
| PFRS 9 (Amendments) | : | Financial Instruments – Prepayment Features with Negative Compensation |
| PFRS 16 | : | Leases |
| International Financial Reporting Interpretations Committee (IFRIC) 23 | : | Uncertainty over Income Tax Treatments |
| Annual Improvements to PFRS (2015-2017 Cycle) | | |
| PAS 12 (Amendments) | : | Income Taxes – Tax Consequences of Dividends |
| PAS 23 (Amendments) | : | Borrowing Costs – Eligibility for Capitalization |
| PFRS 3 & 11 (Amendments) | : | Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation |

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

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement.* The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Group's consolidated financial statements

(ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures.* The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify 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, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The application of these amendments had no significant impact on the Group's consolidated financial statements.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Group's consolidated financial statements.

(iv) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives,* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures

The Group has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the consolidated financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained Earnings as of January 1, 2019. Accordingly, comparative information were not restated with respect to this adoption.

The new accounting policies of the Group as a lessee are disclosed in Note 2.16(a), while the accounting policies of the Group as a lessor, as described in Note 2.16(b), were not significantly affected.

Discussed below are the relevant information arising from the Group's adoption of PFRS 16 and how the related accounts are measured and presented on the Group's consolidated financial statements as at January 1, 2019:

a. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7.85%.

c. The Group has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Group also elected to measure the right-of-use assets based on the carrying amount as if PFRS 16 had always been applied.

d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months, the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

e. The Group has also used, as a practical expedient, the reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets, apart from those already mentioned above, as permitted by the standard. As at January 1, 2019, the Group has no onerous contracts.

f. The Group has accounted for as right-of-use asset the previously recognized development rights as it pertains to payment made at the commencement date of lease (see Notes 2.9 and 14). The related sublease previously accounted as operating lease under PAS 17 is now classified as finance lease under PFRS 16 since the sublease is co-terminus with the head lease term of 32 years. Accordingly, the effect of recognizing net investment in the sublease is presented as an adjustment to opening balance of retained earnings.

Relative to the adoption of PFRS 16 in the Philippines, the FRSC also approved the issuance of the following Philippine Interpretation Committee (PIC) Question and Answer (Q&A):

*(a)* *PIC Q&A No. 2019-09*, *Accounting for Prepaid Rent or Rent Liability Arising from Straight-lining under PAS 17, Leases, on Transition to PFRS 16 and the Related Deferred Tax Effects*, clarifies the accounting treatment for any existing prepaid rent or rent liability in transition from PAS 17 to PFRS 16 using the modified retrospective approach and the related deferred tax effects;

*(b)* *PIC Q&A 2019-11, Determining the Current Portion of an Amortizing Loan/Lease Liability*, clarifies the proper classification/presentation between current and non-current portion of amortizing loan/lease liability in the statement of financial position; and,

*(c)* *PIC Q&A 2019-12, Determining the Lease Term under PFRS 16, Leases,* clarifies the lease term upon consideration of an option to either extend or terminate the lease.

The table below shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the consolidated statement of financial position as at January 1, 2019.

| | Notes | Carrying Amount (PAS 17) December 31, 2018 | Remeasurement and Reclassification | Carrying Amount (PFRS 16) January 1, 2019 |
|---|---|---|---|---|
| *Assets:* | | | | |
| Right-of-use assets | c | P - | P 228,066,600 | P 228,066,600 |
| Trade and other receivables – net | f | 4,317,791,166 | 669,354,394 | 3,648,436,772 |
| Other non-current assets | f | 533,712,009 | ( 265,076,899 ) | 268,635,110 |
| *Liabilities:* | | | | |
| Lease liabilities: | | | | |
| Current | b | - | ( 115,312,953 ) | ( 115,312,953 ) |
| Non-current | b | - | ( 494,944,573 ) | ( 494,944,573 ) |
| Other non-current liabilities | f | ( 1,232,214,997 ) | 265,076,899 | ( 967,138,098 ) |
| Trade and other payables | | ( 3,599,888,181 ) | 74,156,760 | ( 3,525,731,421 ) |
| Deferred tax liabilities | | ( 1,272,105,459 ) | ( 108,396,068 ) | ( 1,380,501,527 ) |
| Impact on net assets | | | P 252,924,160 | |

The reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is as follows:

| | Notes | |
|---|---|---|
| Operating lease commitments, December 31, 2018 (PAS 17) | 28.2 | P 1,313,730,166 |
| Recognition exemptions: | | |
| Leases with remaining term of less than 12 months | 2.2(a)(iv)(d) | ( 95,384,155) |
| Operating lease liabilities before discounting | | 1,218,346,011 |
| Discount using incremental borrowing rate | 2.2(a)(iv)(b) | ( 608,088,485) |
| Lease liabilities, January 1, 2019 (PFRS 16) | | P 610,257,526 |

(v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This 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. The application of this interpretation has no material impact on the Group's consolidated financial statements.

(vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the amendments in the succeeding page, which are effective from January 1, 2019, are relevant to the Group but had no material effect on the Group's consolidated financial statements as the related amendments merely clarify existing requirements.

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends.* The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization.* The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.

- 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.

*(b) Effective Subsequent to 2019 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2019, 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 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.

(ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

(iii) 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.

*(c)* SEC Memorandum Circular (MC) No. 04-2020, *Deferment of the Implementation of IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23) for Real Estate Industry* (IFRIC Agenda Decision).

The IFRIC concluded that any inventory (work-in-progress) for unsold units under construction that the entity recognizes is not a qualifying asset, as the asset is ready for its intended sale in its current condition - i.e., the developer intends to sell the partially constructed units as soon as it finds suitable customers and, on signing a contract with a customer, will transfer control of any work-in-progress relating to that unit to the customer. Accordingly, no borrowing costs can be capitalized on such unsold real estate inventories.

In relation to the above issues, the SEC, in its MC No. 04-2020, provided for the relief to the Real Estate Industry by deferring the implementation of the IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, real estate companies in the Philippines shall adopt the IFRIC interpretations and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. However, a real estate company may opt not to avail of the relief provided and instead comply in full with the requirements of the IFRIC interpretations.

The Group opted to avail of the relief provided by the SEC to defer the implementation of the IFRIC Agenda Decision until December 31, 2020. The Group's accounting policies with respect to capitalization of borrowing costs on real estate inventories under construction are disclosed in Notes 2.5 and 2.21.

Had the Group elected not to defer the IFRIC Agenda Decision, it would have the following impact in the financial statements:

- interest expense would have been higher;
- cost of real estate inventories would have been lower;
- total comprehensive income would have been lower;
- retained earnings would have been lower; and,
- the carrying amount of real estate inventories would have been lower.

*(d)* SEC MC No. 14 Series of 2018 and MC No. 3 Series of 2019

The SEC issued MC No. 14 in 2018 and MC No. 3 in 2019 which provided relief by deferral of the application on the following items for three years until calendar year ending December 31, 2020:

- Concept of the significant financing component in the contract to sell;

  PFRS 15, *Revenue from Contracts with Customers,* requires that in determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component.

- Treatment of land and uninstalled materials in the determination of percentage of completion (POC) (PIC Q&A No. 2018-12-E);

  Uninstalled materials delivered on-site such as steels and rebars, elevators and escalators, which are yet to be installed or attached to the main structure are excluded in the assessment of progress. Land shall also be excluded in the assessment.

- Accounting for common usage service area charges (PIC Q&A No. 2018-12-H); and,

  According to the consensus of the PIC Q&A No. 2018-12-H, the following should be considered by the role of a real estate developer in providing goods or services:

  (i) Electricity usage – Agent
  (ii) Water usage – Agent
  (iii) Air-conditioning charges – Principal
  (iv) Common use service area (CUSA) charges and administrative and handling fees – Principal

- Accounting for cancellation of real estate sales (PIC Q&A No. 2018-14).

  According to the consensus of the PIC Q&A No. 2018-14, repossessed inventory may initially be recognized at either costs or fair value plus repossession costs. Either approaches should be applied consistently.

The Group elected to defer the adoption of the accounting for the significant financing component in a contract to sell under PIC Q&A 2018-12 in accordance with MC No. 14 series of 2018 and the measurement of repossessed inventory at fair value under PIC Q&A 2018-14 in accordance with MC No. 3 series of 2019.

Had the Group elected not to defer the above specific provisions, it would have the following impact in the consolidated financial statements:

- There would have been a significant financing component when there is a difference between the POC of the real estate project and the right to the consideration based on the payment schedule stated in the contract. The Group would have recognized an interest income when the POC of the real estate project is greater than the right to the consideration and interest expense when lesser.

Both interest income and expense are calculated using the effective interest rate method. This will impact the retained earnings as at January 1, 2018 and real estate sales in 2018.

- There would have been an increase in the retained earnings balance as at January 1, 2018 and net profit in 2018 and 2019 as a result of the gain from repossession. This is because repossessed inventory would have been recorded at either fair value plus repossession costs or fair value less repossession costs. The Group currently records repossessed inventory at its carrying amount and recognize in profit or loss the difference between the carrying amount of the repossessed inventory and receivable.

### *2.3 Basis of Consolidation*

The Group's consolidated financial statements comprise the accounts of the Company, and its subsidiaries as enumerated in the 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 (see also Note 2.11).

*(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 (see Note 2.18).

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associate's equity, 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. If the investment in associate is subsequently sold, the Group recognize in profit or loss the difference between the consideration received and the carrying amount of the investment.

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.

(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.

The Company holds interests in various subsidiaries and associates as presented in Notes 1 and 10.

### *2.4 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.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Group commits to purchase or sell the asset).

(a) *Classification and Measurement of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are categorized into the following categories: financial assets at amortized cost, financial assets at fair value through profit or loss, and financial assets at FVOCI. The financial asset category currently relevant to the Group is financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables [except for Value-added tax (VAT) on contracts with customers, Advances to raw landowners and Advances to officers and employees], Advances to Real Estate Property Owners, Advances to Related Parties, and Refundable deposits (part of Other Non-current Assets account).

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Interest income on financial assets at amortized cost is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

Interest income earned is recognized in the consolidated statement of comprehensive income as part of Finance and Other Income account.

*(b) Impairment of Financial Assets*

At the end of the reporting period, the Group assesses and recognizes allowance for ECL on its financial assets measured at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables, contract assets, and other financial assets carried at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Group uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Note 29.2(b)].

The Group applies a general approach specifically, in relation to advances to related parties. The maximum period over which ECL should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of these receivables from related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related parties' highly liquid assets in order to repay the Group's receivables if demanded at the reporting date taking into consideration the historical defaults of the related parties. If the Group cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of advances to related parties can be collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized.

For other financial assets at amortized cost, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The key elements used in the calculation of ECL are as follows:

- *Probability of Default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligations over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss Given Default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at Default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The Group recognizes an impairment loss in consolidated profit of loss for all financial assets subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

*(c) 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.

### *2.5 Inventories*

Cost of real estate inventories includes acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of the property to the Group; related property development costs; and borrowing costs on certain loans incurred during the development of the real estate properties (see Note 2.21). All costs relating to the real estate property sold are recognized as expense as the work to which they relate is performed.

Costs of real estate inventories 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 inventory is charged to operations during the period in which the loss is determined.

Repossessed property arising from sales cancellation is recognized at cost. The difference between the carrying amount of the receivable or Contract Asset to be derecognized and the cost of the repossessed property is recognized in the consolidated statement of comprehensive income.

### *2.6 Prepayments and Other 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.

Advances to contractors pertain to advance payments made by the Group for the construction of real estate properties intended for sale (i.e. held as inventory) and investment properties. This is classified as current asset if it will be applied as payments for construction of assets to be classified as inventories. Otherwise, this we be classified as non-current asset.

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.

### *2.7 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 (see Note 2.18).

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.

### *2.8 Investment Property*

Investment property consists of parcels of land and buildings held for lease or for capital appreciation or both. 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 from other accounts (such as property and equipment or real estate inventory) are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party, while transfers from investment property are made when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use.

If an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property and Equipment account up to the date of change in use (see Note 2.7).

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.

### *2.9 Development Rights*

Prior to the adoption of PFRS 16 in 2019, development rights pertains to the acquired rights to develop land owned by the government over a period of 32 years (see Note 14). These 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 in 2018 and prior periods, 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.

Due to the adoption of PFRS 16 in 2019, the development rights was reclassified to right-of-use asset as it pertains to payment made at the commencement date of lease.

### *2.10 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, Lease Liabilities and Other Non-current Liabilities account (except Advance rental), are recognized when the Group becomes a party to the contractual terms of the instrument. These 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. 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 account 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, except for capitalized borrowing cost, 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.

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.

### *2.11 Business Combination*

*(a) Accounting for Business Combination Using the Acquisition Method*

Business acquisitions of entities not under common control of a principal stockholder are accounted for using the acquisition method of accounting [see Note 2.3(a)].

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 remeasure 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 remeasured, and its subsequent settlement is accounted for within equity.

*(b) Accounting of Business Combination Using the Pooling-of-interests Method*

Business combinations arising from transfers of interests in entities that are under the common control of the principal stockholder are accounted for under the pooling-of interests method. Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting; hence, the assets and liabilities are reflected in the consolidated financial statements at carrying values and no adjustments are made to reflect fair values or recognize any new assets or liabilities, at the date of the combination that otherwise would have been done under the acquisition method.

### *2.12 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 as disclosed in Note 4, 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.

### *2.13 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.

### *2.14 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.

### *2.15 Revenue and Expense Recognition*

Revenue comprises revenue from sale of real properties, hotel operations and leasing activities. The Group's leasing activities are accounted for under PFRS 16 (see Note 2.16).

To determine whether to recognize revenue from revenue covered by PFRS 15, the Group follows a five-step process:

*(a)* identifying the contract with a customer;
*(b)* identifying the performance obligation;
*(c)* determining the transaction price;
*(d)* allocating the transaction price to the performance obligations; and,
*(e)* recognizing revenue when/as performance obligations are satisfied.

The Group determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied. The Group uses the practical expedient in PFRS 15 with respect to non-disclosure of the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting period and the explanation of when such amount will be recognized.

The Group develops real properties such as developed land, house and lot, and condominium units. The Group often enters into contracts to sell real properties as they are being developed. The significant judgment used in determining the timing of satisfaction of the Group's performance obligation with respect to its contracts to sell real properties is disclosed in Note 3.1(b). Sales cancellations are accounted for on the year of forfeiture. Any gain or loss on cancellation is charged to profit or loss.

The specific recognition criteria of the various revenue streams of the Group are as follows:

(a) *Real estate sales on pre-completed real estate properties* – Revenue from real estate sales is recognized over time proportionate to the progress of the development. The Group measures its progress based on actual costs incurred relative to the total expected costs to be incurred in completing the development. Revenue recognized from real estate sales is presented as part of Real Estate Sales account under Revenues and Income section in the consolidated statement of comprehensive income.

(b) *Real estate sales on completed real estate properties* – Revenue from real estate sales is recognized at point in time when the control over the real estate property is transferred to the buyer. Revenue recognized from real estate sales is presented as part of Real Estate Sales account under Revenues and Income section in the consolidated statement of comprehensive income.

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

(c) *Hotel operations* – Revenues from room accommodation and services are recognized over time during the occupancy of hotel guest and ends when the scheduled hotel room accommodation has lapsed (i.e., the related room services have been rendered). As applicable, invoices for hotel accommodations are due upon receipt by the customer. For food and beverage, revenue is recognized at a point in time upon delivery to and receipt of food and beverage by the customer.

(d) *Service income* – Revenue is recognized over time (i.e., time-and-materials basis as the services are provided) until the performance of contractually agreed tasks has been substantially rendered. Service income comprises fees from maintenance of golf course and management fees.

(e) *Marketing fees* – Revenue is recognized over time in the same amount to which the entity has the right of invoice to the customer. Any amounts remaining unbilled at the end of the reporting period are presented in the statement of financial position as receivables as only the passage of time is required before payment of these amounts will be due. Marketing fees are presented as part of Finance and Other Income account in the consolidated statement of comprehensive income (see Note 20.1).

Incremental costs of obtaining a contract to sell real property to customers are recognized as part of Prepayments and Other Current Assets and is subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized. Other costs and expenses are recognized in profit or loss upon utilization of services or receipt of goods or at the date they are incurred. Finance costs are reported on an accrual basis except capitalized borrowing costs (see Note 2.21).

Contract assets pertain to rights to consideration in exchange for goods or services that the Group has transferred to a customer that is conditioned on something other than passage of time. Under its contracts with customers, the Group will receive an unconditional right to payment for the total consideration upon the completion of the development of the property sold. Any rights to consideration recognized by the Group as it develops the property are presented as Contract Assets in the consolidated statement of financial position. Contract assets are subsequently tested for impairment in the same manner as the Group assesses impairment of its financial assets [see Note 2.4(c)].

Any consideration received by the Group in excess of the amount for which the Group is entitled is presented as Contract Liabilities in the consolidated statement of financial position. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

If the transaction does not yet qualify as contract revenue under PFRS 15, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of revenue on sale of real estate, considerations received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statement of financial position.

### *2.16 Leases*

The Group accounts for its leases as follows:

*(a) Group as Lessee*

*(i) Accounting for Leases in Accordance with PFRS 16 (2019)*

For any new contracts entered into on or after January 1, 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.18).

On the other hand, the Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments mainly pertain to fixed payments agreed in the contract. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in consolidated profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, right-of-use assets and lease liabilities have been presented separately from property, plant and equipment and other liabilities, respectively.

*(ii) Accounting for Leases in Accordance with PAS 17 (2018)*

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.

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*(b) Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all the risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income are recognized based on the pattern reflecting constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

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.

Sublease which was previously classified as operating lease applying PAS 17 but finance lease applying PFRS 16 is accounted as a new finance lease entered into at the date of initial application of PFRS 16. The effect of recognizing the net investment in the sublease is recognized as adjustment to the opening balance of retained earnings.

### *2.17 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.

### *2.18 Impairment of Non-financial Assets*

The Group's investments in associates, investment property, property and equipment, development rights (in 2018), right-of-use assets 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.

### *2.19 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. 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 defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

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, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or 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.

### *2.20 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).

### 2.21 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 Inventories 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.

### 2.22 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.

Based on the requirement of SEC MC 2019-60, *Rules of Material Related Party Transactions for Publicly Listed Companies*, transactions amounting to 10% or more of the total consolidated assets based on the latest audited consolidated financial statements that were entered into with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the board of directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent director's vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% if the Group's consolidated total assets based on the latest audited consolidated financial statements, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

### 2.23 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred 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.

### *2.24 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 pertain to remeasurements of retirement benefit obligation.

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.

### *2.25 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 (see Note 27).

### *2.26 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.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

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

*(a) Determination of Lease Term of Contracts with Renewal and Termination Options (2019)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

The Group determines whether any non-cancellable period or notice period in a lease would meet the definition of a contract and thus, would be included as part of the lease term. A contract would be considered to exist only when it creates rights and obligations that are enforceable.

In assessing the enforceability of a contract, the Company considers whether the lessor can refuse to agree to a request from the Company to extend the lease. In contrast, a lessor's right to terminate a lease is ignored when determining the lease term because, in that case, the lessee has an unconditional obligation to pay for the right to use the asset for the period of the lease, unless and until the lessor decides to terminate the lease.

*(b) Evaluation of the Timing of Satisfaction of Performance Obligations*

*(i) Real Estate Sales*

The Group exercises significant judgment in determining whether each performance obligation to develop properties promised in its contracts with customers is satisfied over time or at a point in time. In making this judgment, the Group considers the following:

- any asset created or enhanced as the Group performs;
- the ability of the customer to control such asset as it is being created or enhanced;
- the timing of receipt and consumption of benefits by the customer; and,
- the Group's enforceable right for payment for performance completed to date.

The Group determines that its performance obligation for pre-completed real estate properties is satisfied over time since it does not have an alternative use of the specific property sold as it is precluded by its contract from redirecting the use of the property for a different purpose. Further, the Group has rights over payment for development completed to date as the Group can choose to complete the development and enforce its rights to full payment under its contracts even if the customer defaults on amortization payments. On the other hand, performance obligation for completed real estate properties is satisfied at a point in time when the control over the real estate property is transferred to the buyer.

*(ii) Hotel Operations*

The Group determines that its revenue from hotel operations shall be recognized over time. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided by the Group to the customers. The Group provides the services without the need of reperformance of other companies. This demonstrates that the customers simultaneously receive and consume the benefits of the Group's rendering of hotel services as it performs.

*(c) Determination of ECL on Trade and Other Receivables, Contract Assets and Advances to Related Parties*

The Group uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due for group of various customer segments that have similar loss patterns (i.e., product type, customer type, and coverage by letters of guarantee and other forms of credit insurance).

The provision matrix is based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables are disclosed in Note 29.2.

In relation to advances to related parties, that the maximum period over which ECL should be measured is the longest contractual period where the Group is exposed to credit risk. In the case of these receivables from related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines ECL based on the sufficiency of the related parties' highly liquid assets in order to repay the Group's receivables if demanded at the reporting date, taking into consideration the historical defaults of the related parties. If the Group cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of receivables can be fully collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized.

Based on the relevant facts and circumstances existing at the reporting date, management has assessed that all strategies indicate that the Group can fully recover the outstanding balance of its receivables, except for those discussed in Note 29.2.

(d) *Distinction among Investment Property and Owner-occupied Properties*

The Group determines whether an asset qualifies as an item of investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the operations of the Group or for administrative purposes.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(e) *Distinction Between Real Estate Inventories and Investment Properties*

Residential and condominium units comprise properties that are held for sale in the ordinary course of business. Meanwhile, investment properties comprise of land and buildings which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. The Group considers management's intention over these assets in making its judgment.

(f) *Determination of Significant Influence over Entities in which the Group Holds Less than 20% Ownership*

The Group determines whether significant influence exists over an investee company over which the Group holds less than 20% of the investee's capital stock. The Group considers the ability to influence the operating and financial policies of the investee, representation on the board of directors of the investee, provision of essential technical information for the development of the various projects of these investees, and routine participation in management decisions in making its judgment. Based on management's judgment, the Group has significant influence over these investee companies (see Note 1).

*(g) Consolidation of Entities in which the Company Holds 50% Ownership or Less*

Management considers that the Company has de facto control over OPI even though it does not hold more than 50% of the ordinary shares and voting rights of this subsidiary due to the factors discussed below.

The Company holds 50% equity interest over OPI and has: (1) the ability to direct the relevant activities of the subsidiary; (2) the rights to variable returns from its involvement with the subsidiary; and, (3) the ability to use its power to affect its returns from its involvement with the subsidiary. Based on management's judgment, the Company has control over OPI; hence, the said subsidiary was consolidated in the financial statements of the Group.

*(h) Distinction between Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management in 2018 and prior periods to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, such leases were determined to be operating leases.

In 2019, upon adoption of PFRS 16, the distinction between operating and finance leases is applicable only to lease agreements as a lessor. All leases entered into as a lessee, except for those qualified under the optional exemptions as provided by the standard, are required to be recognized on-balance sheet.

*(i) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.13 and relevant disclosures are presented in Note 28.

### *3.2 Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

*(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using the effective interest rate on the most recent loan. Since the date of the availment is near the initial date of application, management is satisfied that the selected rate reflects the risks specific to the Group.

*(b) Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in profit or loss in the subsequent period.

(c) *Revenue Recognition for Performance Obligations Satisfied Over Time*

In determining the amount of revenue to be recognized for performance obligations satisfied over time, the Group measures progress on the basis of actual costs incurred relative to the total expected costs to complete such performance obligation. Specifically, the Group estimates the total development costs with reference to the project development plan and any agreement with customers. Management regularly monitors its estimates and apply changes as necessary. A significant change in estimated costs would result in a significant change in the amount of revenue recognized in the year of change.

(d) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 29.2.

(e) *Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The future realization of the carrying amounts of these assets is affected by price changes in the different market segments as well as the trends in the real estate industry. These are considered key sources of estimation and uncertainty and may cause significant adjustments to the Group's inventories within the next reporting period.

Considering the Group's pricing policy, the net realizable values inventories are higher than their related carrying values as of the end of the reporting periods.

(f) *Fair Value of Stock Options*

The Company estimates the fair value of the executive stock option by applying an option valuation model, taking into account the terms and conditions on which the executive stock option were granted. The estimates and assumptions used are presented in Note 26.2, which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the Company's share price and fair value of the Company's common shares. Changes in these factors can affect the fair value of stock options at grant date.

(g) *Estimation of Useful Lives of Investment Property, Property and Equipment, Right-of-use Assets and Development Rights*

The Group estimates the useful lives of investment property, property and equipment, right-of-use assets, and development rights (prior to the adoption of PFRS 16) based on the period over which the assets are expected to be available for use. The estimated useful lives of investment property, property and equipment, and development right are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of investment property, property and equipment, right-of-use assets and development rights (prior to the adoption of PFRS 16) are analyzed in Notes 11, 12, 13 and 14, respectively. Based on management's assessment as at December 31, 2019 and 2018, there are no changes in the estimated useful lives of those assets as of the end of the reporting periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(h) Fair Value Measurement of Investment Property*

Investment property is measured using the cost model. For disclosure purposes, the Group determines the fair values of building and building improvements using the discounted cash flows valuation technique since the information on current or recent prices of assumptions underlying the discounted cash flow approach of investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at the end of each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates.

These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

For land and land development and improvements, the Group determines the fair value of land through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property.

A significant change in these elements may affect prices and the value of the assets. The fair value of investment properties is disclosed in Notes 11 and 31.3.

*(i) Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2019 and 2018 will be fully utilized within the prescribed period of availment. The carrying value of deferred tax assets as of those dates is disclosed in Note 24.

*(j) Impairment of Non-financial Assets*

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.18. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

In 2019, certain advances to contractors were found to be impaired (see Note 8). Also, in 2018, certain investments in associates were found to be impaired, hence, the related carrying amounts were written off (see Note 10). No impairment losses were recognized on investment property, property and equipment, development rights (prior to the adoption of PFRS 16), right-of-use assets and other non-financial assets for the years ended December 31, 2019, 2018 and 2017 (see Notes 11, 12, 13 and 14).

*(k) Valuation of Post-employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the retirement benefit obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 23.2.

*(l) Basis for Revenue Recognition Benchmark*

The Group recognizes its revenue from sale of real estate in full when 10% or more of the total contract price is received. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group has ascertained the buyer's commitment to complete the payment of the total contract price.

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the development of residential and office units including urban centers integrating office, residential and commercial components. The Real Estate segment pertains to the development and sale of residential and office projects. The Rental segment includes leasing of office and commercial spaces. The Hotel Operations segment includes hotel services, sale of food and beverages, and parties and events services. The Service Income segment relates to maintenance of golf courses. The Corporate and Others segment includes marketing services, general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 2.12. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

### *4.2 Segment Assets and Segment Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash, receivables, real estate inventories, property and equipment, and investment property, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages and taxes currently payable and accrued liabilities. Segment assets and segment liabilities do not include deferred taxes.

### 4.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

### 4.4 Analysis of Segment Information

The tables presented in the succeeding pages present revenue and profit information regarding industry segments for the years ended December 31, 2019, 2018 and 2017 and certain asset and liability information regarding segments at December 31, 2019, 2018 and 2017.

## As of and for the Year Ended December 31, 2019

| | Real Estate | Rental | Hotel Operations | Service Income | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | | |
| Sales to external customers | P 6,062,091,916 | P 746,691,845 | P 813,928,144 | P172,020,165 | P 496,956,488 | P - | P 8,291,688,558 |
| Intersegment sales | - | 108,358,631 | - | - | 77,932,047 | ( 186,290,678) | - |
| Total revenues | P 6,062,091,916 | P 855,050,476 | P 813,928,144 | P172,020,165 | P 574,888,535 | (P186,290,678) | P 8,291,688,558 |
| **RESULTS** | | | | | | | |
| Segment results | P 2,189,099,477 | P 482,353,855 | P 135,827,924 | P 8,397,283 | P 156,586,948 | (P186,290,678) | P 2,785,974,809 |
| Unallocated expenses | | | | | | | - |
| Income from operations | | | | | | | 2,785,974,809 |
| Finance income | 68,467,736 | - | - | - | 91,265,230 | - | 159,732,966 |
| Finance costs | - | - | - | - | ( 236,057,259) | - | ( 236,057,259) |
| Equity share in net losses of associates | - | - | - | - | ( 101,665) | - | ( 101,665) |
| Foreign currency gain – net | - | - | - | - | - | - | - |
| Income before tax | | | | | | | 2,709,548,851 |
| Tax expense | | | | | | | ( 792,811,959) |
| Net profit before non-controlling interest | | | | | | | 1,916,736,892 |
| Non-controlling interest share in net profit | | | | | | | 427,682,228 |
| Net income attributable to the Company's shareholders | | | | | | | P 1,489,054,664 |
| **ASSETS AND LIABILITIES** | | | | | | | |
| Segment assets | P36,799,037,737 | P6,300,922,240 | P1,175,665,711 | P289,135,470 | P3,593,172,363 | P - | P48,157,933,521 |
| Investments in and advances to associates and other related parties | - | - | - | - | 1,609,805,514 | - | 1,609,805,514 |
| Unallocated assets | - | - | - | - | - | - | - |
| Total assets | P 36,799,037,737 | P6,300,922,240 | P1,175,665,711 | P289,135,470 | P5,202,977,877 | P - | P 49,767,739,035 |
| Total segment liabilities | P 11,151,741,650 | P 729,554,662 | P 565,653,419 | P 98,380,836 | P3,973,809,893 | P - | P 16,519,140,460 |
| **OTHER SEGMENT INFORMATION** | | | | | | | |
| Project and capital expenditures | P 3,104,512,073 | P1,081,995,898 | P 53,611,777 | P 6,249,158 | P 58,672,774 | P - | P 4,305,041,680 |
| Depreciation and amortization | 31,728,205 | 249,232,973 | 24,181,907 | 22,964,213 | 24,472,644 | - | 352,579,942 |

## As of and for the Year Ended December 31, 2018

| | Real Estate | Rental | Hotel Operations | Service Income | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | | |
| Sales to external customers | P 6,370,555,422 | P 426,536,057 | P 223,958,354 | P134,709,245 | P 226,936,988 | P - | P 7,382,696,066 |
| Intersegment sales | - | 56,066,147 | - | - | 87,242,698 | ( 143,308,845) | - |
| Total revenues | P 6,370,555,422 | P 482,602,204 | P 223,958,354 | P134,709,245 | P 314,179,686 | (P143,308,845) | P 7,382,696,066 |
| **RESULTS** | | | | | | | |
| Segment results | P 2,327,378,504 | P 264,658,167 | P 9,998,290 | P 6,407,041 | P 137,585,985 | (P143,308,845) | P 2,602,719,142 |
| Unallocated expenses | | | | | | | - |
| Income from operations | | | | | | | 2,602,719,142 |
| Finance income | 33,957,754 | - | - | - | 100,841,535 | - | 134,799,289 |
| Finance costs | - | - | - | - | ( 205,395,234) | - | ( 205,395,234) |
| Equity share in net losses of associates | - | - | - | - | ( 183,393) | - | ( 183,393) |
| Foreign currency gain – net | - | - | - | - | 4,013,772 | - | 4,013,772 |
| Income before tax | | | | | | | 2,535,953,576 |
| Tax expense | | | | | | | ( 811,666,522) |
| Net profit before non-controlling interest | | | | | | | 1,724,287,054 |
| Non-controlling interest share in net profit | | | | | | | 228,970,258 |
| Net income attributable to the Company's shareholders | | | | | | | P 1,495,316,796 |
| **ASSETS AND LIABILITIES** | | | | | | | |
| Segment assets | P34,538,739,968 | P5,805,530,033 | P 740,872,150 | P268,982,537 | P3,069,450,671 | P - | P44,423,575,359 |
| Investments in and advances to associates and other related parties | - | - | - | - | 1,606,455,807 | - | 1,606,455,807 |
| Unallocated assets | - | - | - | - | - | - | - |
| Total assets | P 34,538,739,968 | P5,805,530,033 | P 740,872,150 | P268,982,537 | P4,675,906,478 | P - | P 46,030,031,166 |
| Total segment liabilities | P 9,940,539,267 | P 134,887,028 | P 197,555,657 | P104,630,066 | P4,492,511,270 | P - | P 14,870,123,288 |
| **OTHER SEGMENT INFORMATION** | | | | | | | |
| Project and capital expenditures | P 1,812,230,047 | P1,137,817,170 | P 6,458,940 | P 1,901,964 | P 61,990,201 | P - | P 3,020,398,322 |
| Depreciation and amortization | 23,088,114 | 93,167,264 | 17,337,257 | 33,220,394 | 29,005,978 | - | 195,819,007 |

## As of and for the Year Ended December 31, 2017

| | Real Estate | Rental | Hotel Operations | Service Income | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | | |
| Sales to external customers | P 5,256,759,191 | P 161,258,835 | P 349,155,484 | P134,082,713 | P 210,629,187 | P - | P 6,111,885,410 |
| Intersegment sales | - | 56,380,397 | - | - | 60,161,697 | ( 116,542,094) | - |
| Total revenues | P 5,256,759,191 | P 217,639,232 | P 349,155,484 | P134,082,713 | P 270,790,884 | (P116,542,094) | P 6,111,885,410 |
| **RESULTS** | | | | | | | |
| Segment results | P 2,022,758,392 | P 120,946,859 | P 62,644,561 | P 14,803,698 | P 136,922,857 | (P116,542,094) | P 2,241,534,273 |
| Unallocated expenses | | | | | | | - |
| Income from operations | | | | | | | 2,241,534,273 |
| Finance income | 20,601,111 | - | - | - | 26,503,695 | - | 47,104,806 |
| Finance costs | - | - | - | - | ( 98,101,836) | - | ( 98,101,836) |
| Equity share in net losses of associates | - | - | - | - | ( 33,983) | - | ( 33,983) |
| Income before tax | | | | | | | 2,190,503,260 |
| Tax expense | | | | | | | ( 675,965,664) |
| Net profit before non-controlling interest | | | | | | | 1,514,537,596 |
| Non-controlling interest share in net profit | | | | | | | 61,430,000 |
| Net income attributable to the Company's shareholders | | | | | | | P 1,453,107,596 |
| **ASSETS AND LIABILITIES** | | | | | | | |
| Segment assets | P32,609,932,135 | P4,915,092,680 | P 671,088,445 | P359,997,756 | P4,165,639,240 | P - | P42,721,750,256 |
| Investments in and advances to associates and other related parties | - | - | - | - | 1,866,660,163 | - | 1,866,660,163 |
| Unallocated assets | - | - | - | - | - | - | - |
| Total assets | P 32,609,932,135 | P4,915,092,680 | P 671,088,445 | P359,997,756 | P6,032,299,403 | P - | P 44,588,410,419 |
| Total segment liabilities | P 12,746,343,717 | P 42,647,341 | P 165,043,611 | P269,395,714 | P1,922,411,808 | P - | P 15,145,842,191 |
| **OTHER SEGMENT INFORMATION** | | | | | | | |
| Project and capital expenditures | P 3,163,178,424 | P1,303,126,282 | P 4,096,410 | P 19,482,902 | P 98,333,561 | P - | P 4,588,217,579 |
| Depreciation and amortization | 25,230,688 | 26,615,043 | 18,060,533 | 33,352,501 | 26,573,545 | - | 129,832,310 |

### *4.5 Reconciliations*

Presented below is a reconciliation of the Group's net revenues to the revenues presented in its consolidated statements of comprehensive income.

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| **Net revenues** | | | |
| Total segment revenues | **P 8,477,979,236** | P 7,526,004,911 | P 6,228,427,504 |
| Elimination of intersegment revenues | **( 186,290,678)** | ( 143,308,845) | ( 116,542,094) |
| Revenues as reported in consolidated profit or loss | **P 8,291,688,558** | P 7,382,696,066 | P 6,111,885,410 |

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at the end of the reporting periods:

| | **2019** | 2018 |
|---|---|---|
| Cash on hand and in banks | **P 1,631,453,415** | P 1,221,982,477 |
| Short-term placements | **990,020,000** | 549,319,652 |
| | **P 2,621,473,415** | P 1,771,302,129 |

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made between 15 to 65 days at prevailing market interest rates and earn annual effective interest of 1.00% to 2.25% in 2019 and 2018.

Interest income earned from cash in banks and short-term placements is included as part of Finance income under the Finance and Other Income account in the consolidated statements of comprehensive income (see Note 20.1).

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following as at December 31:

| | Notes | **2019** | 2018 |
|---|---|---|---|
| Current: | | | |
| Installment contract and other trade receivables | | **P5,682,019,459** | P 3,992,175,923 |
| VAT on contracts with customers | | **500,216,323** | 369,037,588 |
| Advances to officers and employees | 25.3 | **242,086,049** | 224,031,792 |
| Finance lease receivable | 14 | **86,786,949** | - |
| Unearned discount and interest | | **( 68,704,884)** | ( 21,392,446) |
| Advances to raw landowners | | **58,652,413** | 58,652,413 |
| Others | 14, 25.2 | **249,161,476** | 235,628,196 |
| | | **6,750,217,785** | 4,858,133,466 |
| Allowance for impairment | | **( 540,342,300)** | ( 540,342,300) |
| | | **P6,209,875,485** | P 4,317,791,166 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| Non-current: | | | |
| Installment contract receivables | | **P2,332,838,294** | P1,129,261,668 |
| Finance lease receivable | 14 | **585,969,480** | - |
| VAT on contracts with customers | | **82,890,535** | 17,359,681 |
| Unearned discount and interest | | **( 88,826,393)** | ( 134,786,084) |
| | | **P 2,912,871,916** | P1,011,835,265 |

Installment contract receivables represent receivables from sale of real estate and resort shares for sale and are normally collectible monthly within one to five years. The titles to the real estate and resort shares sold remain with the Group until such receivables are fully collected. The installment period of sales contracts averages from three to five years.

Installment contract receivables are noninterest-bearing and are measured at amortized cost using the effective interest method based on the interest rate of comparable financial instruments in the market. Interest income from amortization amounted to P68.5 million and P33.6 million for the years ended December 31, 2019 and 2018, respectively, and is presented as part of Finance income under the Finance and Other Income account in the consolidated statements of comprehensive income (see Note 20.1).

Meanwhile, the related day-one loss on the discounting of the interest free installment contracts receivables amounting to P155.6 million and P64.6 million for the years ended December 31, 2019 and 2018, respectively, is presented as Day-one loss under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 20.2).

VAT on contracts with customers represents the VAT component of the contract price of real estate sales to the extent recognized either as installment contract receivables or contract assets.

Advances to officers and employees are noninterest-bearing, unsecured and settled through salary deduction or liquidation.

Advances to raw landowners are noninterest-bearing cash advances pertaining to amounts advanced by the Group to certain raw landowners as down payment for lots to be acquired for future real estate development.

Other receivables include interest receivable from cash and short-term placements in banks and rent receivables from third parties and related parties.

All of the Group's trade and other receivables have been reviewed for impairment. In 2018, management determined that certain receivables with no allowance for impairment were impaired and should be written off. Accordingly, impairment loss amounting to P9.9 million was recognized and presented as part of Miscellaneous under Operating Expenses account in the 2018 consolidated statement of comprehensive income (see Note 21). In 2019, management assessed that no impairment loss is needed to be recognized. As of December 31, 2019 and 2018, certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer since the titles to the real estate properties sold remain with the Company until such receivables are fully collected. This assessment is undertaken each financial year using simplified approach in measuring ECL as fully disclosed in Note 29.2.

## 7. INVENTORIES

Except for the portion of Golf and resorts shares for sale stated at net realizable value, inventories at the end of 2019 and 2018 were stated at cost. The details of inventories are shown below.

| | **2019** | 2018 |
|---|---|---|
| At cost: | | |
| Real estate for sale | **P11,202,671,006** | P10,586,399,146 |
| Property development cost | **1,915,800,888** | 2,243,707,288 |
| Raw land inventory | **2,153,961,668** | 2,354,761,268 |
| | **15,272,433,562** | 15,184,867,702 |
| Golf and resort shares for sale at NRV: | | |
| At cost | **2,929,635,312** | 2,837,501,920 |
| Allowance for impairment | **( 88,411,502)** | ( 88,411,502) |
| | **2,841,223,810** | 2,749,090,418 |
| | **P18,113,657,372** | P17,933,958,120 |

Real estate for sale mainly pertains to the accumulated costs incurred in developing the Group's horizontal and condominium projects and certain integrated-tourism projects, including capitalized borrowing costs amounting to P136.3 million and P123.2 million for the years ended December 31, 2019 and 2018, respectively. The said interest was incurred in relation to the interest-bearing loans obtained in 2016 and 2015 (see Note 15). The capitalization rate averaged 5.62% and 6.01% in 2019 and 2018, respectively.

In 2019, the Group reclassified property development cost and real estate for sale with a total carrying amount of P604.8 million to investment property as such properties are held to earn rentals (see Note 11).

Property development costs include on-going costs incurred by the Group for its own projects. In addition, this account also includes the costs incurred by the Group for the joint development of various projects that are treated as jointly controlled operations; there were no separate entities created by these joint venture agreements. The jointly controlled operations are undertaken under project agreements with different venture partners. The costs relating to these joint projects represent the amount of investments placed by the Group as original investor/developer or the amount assigned/transferred to the Group by associates or by related parties who were the original investors/developers in the project agreement.

Raw land inventory pertains to 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.

Golf and resort shares for sale pertain to proprietary or membership shares (landowner shares and founders shares) that are of various types and costs. The cost of the landowner resort shares is based on the acquisition and development costs of the land and the project. The cost of the founders shares is based on the par value of the resort shares which is P100 per share.

As at December 31, 2019 and 2018, the Group neither has other contingent liabilities with regard to these joint ventures nor that the probability of loss that may arise from contingent liabilities is remote.

There are no impairment losses recognized in 2019, 2018 and 2017.

## 8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account is shown below.

| | Notes | 2019 | 2018 |
|---|---|---|---|
| Advances to contractors and suppliers | | **P1,603,253,098** | P 982,293,185 |
| Input VAT | | **982,742,486** | 1,107,248,959 |
| Creditable withholding tax | | **220,193,170** | 197,362,945 |
| Prepayments | 25.2 | **197,600,767** | 182,184,614 |
| Deferred commission | 19.3 | **140,424,475** | 168,584,563 |
| Others | | **117,972,216** | 87,119,827 |
| | | **3,262,186,212** | 2,724,794,093 |
| Allowance for impairment | | **( 18,716,925)** | ( 13,599,572) |
| | | **P3,243,469,287** | P2,711,194,521 |

Advances to contractors and suppliers, which are noninterest-bearing and unsecured, pertain to amounts advanced to the Group's contractors and suppliers as down payment for services to be rendered and goods to be delivered to the Group for the development of real estate projects.

Deferred commission represents incremental costs of obtaining a contract to sell real estate property to customers, which are subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized.

In 2019, the Group recognized an impairment loss from its advances to contractors and suppliers amounting to P5.1 million presented as part of Miscellaneous under Operating Expenses account in the 2019 consolidated statement of comprehensive income (see Note 21). In 2019, the Group recognized an impairment loss from its advances to contractors and suppliers amounting to P5.1 million presented as part of Miscellaneous under Other Operating Expenses account in the 2019 consolidated statement of comprehensive income (see Note 21). There are no impairment losses recognized in 2018 and 2017.

## 9. ADVANCES TO REAL ESTATE PROPERTY OWNERS

This account represents advances to real estate property owners and various charges in connection with several project agreements entered into by the Group. The terms of the agreements provide that the Group will undertake the improvement, subdivision and development of the properties. The agreements further stipulate that the Group and the property owners share either in the form of the developed real estate properties or upon collection of sales proceeds using certain pre-agreed sharing ratios. Collections of the advances from the said property owners are generally received upon sale of property owners' shares in the projects.

The outstanding amounts, net of unearned discount and interest, at the end of the reporting period are as follows:

| | 2019 | 2018 |
|---|---|---|
| Advances to real estate property owners | **P 1,323,653,075** | P1,286,802,028 |
| Unearned discount and interest | **( 42,968,045)** | ( 46,875,186) |
| | **P1,280,685,030** | P1,239,926,842 |

The advances to real estate property owners are classified in the consolidated financial position as follows:

| | **2019** | 2018 |
|---|---|---|
| Current | **P 216,002,876** | P 185,671,144 |
| Non-current | **1,064,682,154** | 1,054,255,698 |
| | **P1,280,685,030** | P1,239,926,842 |

The net commitment for construction expenditures of the Group amounted to:

| | **2019** | 2018 |
|---|---|---|
| Total commitment for construction expenditures | **P6,138,652,108** | P5,874,923,108 |
| Total expenditures incurred | **( 5,342,300,887)** | ( 4,981,520,218) |
| Net commitment | **P 796,351,221** | P 893,402,890 |

The Group's interests on jointly-controlled operations and projects range from 50% to 85% in both 2019 and 2018. The list of the Group's jointly controlled projects (which are not jointly-controlled entities) are as follows:

- Alabang West
- Caliraya Spring
- Forest Hills
- Kingsborough
- Monte Cielo de Peñafrancia
- Mountain Meadows
- Newport Hills
- Pahara @ Southwoods
- Sta. Barbara Heights Phase 2 & 3
- Holland Park
- Sta Barbara Heights Shophouse District

As at December 31, 2019 and 2018, the Group has neither other contingent liabilities with regard to these joint ventures nor has assessed that the probability of loss that may arise from contingent liabilities is remote.

The amortization of unearned discount and interest amounting to P3.9 million in 2019, 2018 and 2017 is presented as part of Finance income under the Finance and Other Income account in the consolidated statements of comprehensive income (see Note 20.1).

The real estate property owners related to the Alabang West, Pahara @ Southwoods and Holland Park projects were charged marketing fees in 2019 and 2018 amounting to P152.7 million and P153.8 million, respectively, which are presented as Marketing fees under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 20.1).

All of the Group's advances have been analyzed for ECL. Based on management's evaluation, expected loss is not significant.

## 10. INVESTMENTS IN ASSOCIATES AND NON-CONTROLLING INTERESTS

### *10.1 Investments in Associates*

The components of the carrying values of investments in associates accounted for under the equity method at the end of the reporting periods are as follows:

| | **2019** | 2018 |
|---|---|---|
| Acquisition costs: | | |
| NPI | **P 734,396,528** | P 734,396,528 |
| BNHGI | **-** | 109,216,973 |
| FERC | **-** | 28,000,000 |
| FENI | **-** | 10,000,003 |
| FESI | **-** | 7,808,360 |
| FERSAI | **-** | 4,000,000 |
| | **734,396,528** | 893,421,864 |
| Write off | **-** | ( 49,808,363) |
| | **734,396,528** | 843,613,501 |
| Accumulated equity share in net losses: | | |
| Balance at beginning of year | **2,393,690** | 47,109,726 |
| Sold during the year | **( 246,517)** | - |
| Equity share in net losses for the year | **101,665** | 183,393 |
| | **2,248,838** | 47,293,119 |
| Write off | **-** | ( 44,899,429) |
| Balance at end of year | **2,248,838** | 2,393,690 |
| | **P 732,147,690** | P 841,219,811 |

Significant influence that exists in these associates is brought about by the Group's provision of essential technical information for the development of the various projects of these investee companies.

The place of incorporation, which is also the principal place of business, of the Group's associates is presented below.

*(a)* BNHGI, NPI, FESI – Renaissance Towers, Meralco Avenue, Pasig City
*(b)* FERC, FENI, FERSAI – Paragon Plaza, Reliance St., Mandaluyong City

The aggregated amounts of assets, liabilities, revenues and net loss of the associates are as follows:

| | **December 31, 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Current Assets** | **Non-current Assets** | **Current Liabilities** | **Non-current Liabilities** | **Revenues** | **Net Loss** |
| **NPI** | **P 260,527,963** | **P 5,411,008,680** | **P 1,317,006,155** | **P -** | **P 8,725** | **(P 726,177)** |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Current Assets | Non-current Assets | Current Liabilities | Non-current Liabilities | Revenues | Net Loss |
| BNHGI | P 194,282,361 | P 1,606,056,250 | P 196,755,377 | P - | P - | (P 135,712) |
| NPI | 261,236,740 | 5,411,008,680 | 1,317,006,155 | - | 9,713 | ( 1,164,541) |
| | P 455,519,101 | P 7,017,064,930 | P 1,513,761,532 | P - | P 9,713 | (P 1,300,253) |

The fair values of the associates' shares of stock are not available as of the end of the reporting periods.

Based on the assessment of the management, aside from those that have been written off in 2018, the investments in associates are not impaired due to the active efforts of the Group to raise funds in order to push through with the associates' projects.

In 2018, the Group wrote off its investments to FERC, FENI, FESI and FERSAI. The carrying amount of these investments amounting to P4.9 million was recognized as impairment loss and is presented as Impairment loss under Finance Costs and Other Charges account in the 2018 statement of comprehensive income (see Note 20.2). There is no similar transaction in 2019.

In 2019 and 2017, the Group sold ownership interest in BNHGI to a third party for P297.5 million each year. Gains from these transactions amounted to P188.5 million and P113.1 million in 2019 and 2017, respectively, which represent the excess of the consideration received over the book value of disposed investment and are presented as Gain on Sale of Investment in Associate in the consolidated statements of comprehensive income. No similar transaction occurred in 2018.

### *10.2 Subsidiaries with Material Non-controlling Interests*

The Group includes subsidiaries with material NCI, with details shown below.

| Name of Subsidiary | Material NCI | Proportion of Ownership Interest and Voting Rights Held by NCI | | Profit (Loss) Allocated to NCI | | Accumulated NCI | |
|---|---|---|---|---|---|---|---|
| | | **2019** | 2018 | 2019 | 2018 | 2019 | 2018 |
| TLC | Various stockholders | **49%** | 49% | **P 212,648,014** | P 117,741,464 | **P 3,624,953,970** | P 3,412,305,956 |
| SMI | Megaworld | **49%** | 49% | **123,306,622** | 31,093,333 | **1,086,473,925** | 963,167,303 |
| SWEC | Various stockholders | **40%** | 40% | **29,379,144** | 30,728,429 | **275,673,339** | 246,294,195 |
| OPI | Various stockholders | **50%** | 50% | **51,561,092** | 42,650,492 | **264,020,271** | 262,459,179 |

In 2019, OPI declared dividends amounting to P100.0 million. In 2018, SWEC declared and paid cash dividends amounting to P50.0 million. No dividends were paid by the other subsidiaries to the NCI in 2019 and 2017.

The place of incorporation of TLC, SMI, SWEC and OPI is summarized below.

*(a)* TLC and SMI – Renaissance Towers, Meralco Avenue, Pasig City
*(b)* SWEC – Southwoods Ecocentrum, Brgy. Soro-Soro, Biñan, Laguna
*(c)* OPI – 5th Floor, F&M Lopez II Building, 109 C. Palanca St., Legaspi Village, Makati City

In 2017, the SEC approved the change in the registered office and principal place of business of the Company's subsidiaries (TLC and SMI) from its place of incorporation to 16th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City.

### *10.3 Interest in Unconsolidated Structured Entities*

The Group has no interests in unconsolidated structured entities.

The summarized financial information of TLC, SMI, SWEC and OPI, before intragroup eliminations, is shown below.

| | TLC | | SMI | | SWEC | | OPI | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Current assets | P 4,737,958,113 | P 3,982,705,630 | P 629,031,061 | P 456,602,655 | P 657,380,345 | P 558,475,475 | P 693,515,471 | P 873,738,895 |
| Non-current assets | 5,592,999,189 | 5,285,919,359 | 3,121,302,148 | 3,063,657,773 | 338,207,624 | 352,461,053 | 527,674,746 | 447,617,464 |
| Total assets | P10,330,957,302 | P9,268,624,989 | P3,750,333,209 | P3,520,260,428 | P 995,587,969 | P 910,936,528 | P 1,221,190,217 | P 1,321,356,359 |
| Current liabilities | P 1,281,369,417 | P 924,489,697 | P 1,104,470,871 | P 1,245,567,372 | P 230,820,775 | P 241,892,916 | P 605,838,136 | P 701,271,162 |
| Non-current liabilities | 1,592,202,435 | 1,339,075,370 | 424,148,287 | 302,193,207 | 65,546,089 | 53,308,125 | 87,311,539 | 95,166,839 |
| Total liabilities | P 2,873,571,852 | P 2,263,565,067 | P 1,528,619,158 | P 1,547,760,579 | P 296,366,864 | P 295,201,041 | P 693,149,675 | P 796,438,001 |
| Equity attributable to shareholders of the Company | P 3,803,266,580 | P 3,572,580,561 | P 1,133,074,166 | P 1,005,974,923 | P 419,532,663 | P 369,441,292 | P 264,020,271 | P 262,459,179 |
| Non-controlling interests | P 3,654,118,870 | P 3,432,479,361 | P 1,088,639,885 | P 966,524,926 | P 279,688,442 | P 246,294,195 | P 264,020,271 | P 262,459,179 |
| Revenue | P 1,922,013,836 | P 1,310,231,825 | P 580,060,871 | P 284,297,670 | P 174,502,406 | P 178,646,514 | P 376,843,876 | P 327,451,318 |
| Profit (loss) for the year attributable to shareholders of the Company | P 230,686,019 | P 116,206,286 | P 123,982,976 | P 32,362,448 | P 50,091,371 | P 46,092,643 | P 51,561,092 | P 42,650,492 |
| Profit (loss) for the year attributable to NCI | 221,639,509 | 111,649,176 | 119,120,898 | 31,093,333 | 33,394,247 | 30,728,429 | 51,561,092 | 42,650,492 |
| Profit (loss) for the year | P 452,325,528 | P 227,855,462 | P 243,103,874 | P 63,455,781 | P 83,485,618 | P 76,821,072 | P 103,122,184 | P 85,300,984 |
| Net cash from (used) in operating activities | (P 176,347,847) | (P 40,515,278) | P 361,625,683 | P 182,781,152 | (P 10,849,104) | P 31,964,406) | P 197,229,747 | (P 19,345,168) |
| Net cash from (used in) investing activities | ( 287,034,571) | ( 325,025,252) | ( 82,453,844) | ( 417,171,565) | 175,668 | 648,934 | 141,990 | 117,507 |
| Net cash from (used in) financing activities | 535,393,205 | 230,181,960 | ( 211,710,737) | 233,206,415 | ( 12,000,000) | - | ( 169,566,225) | ( 49,341,907) |
| Effect of foreign exchange rates | ( 2,253,649) | 1,920,932 | - | - | - | - | - | - |
| Net cash inflow (outflow) | (P 69,757,138) | (P 133,437,638) | P 67,461,102 | (P 1,183,998) | (P 22,683,436) | P 31,315,472) | P 27,805,512 | (P 68,569,568) |

TLC, SMI, SWEC and OPI have no other comprehensive income in the year 2019 and 2018; hence, the respective total comprehensive income (loss) of these subsidiaries are the same with the profit (loss) recognized in both years.

## 11. INVESTMENT PROPERTY

The Group's investment properties comprise of buildings and several parcels of land which are owned to earn rental income or for capital appreciation or for both. The gross carrying amounts and accumulated depreciation and amortization of investment properties at the beginning and end of the reporting periods are shown below.

| | Building and Improvements | Land and Land Development and Improvements | Construction in Progress | Total |
|---|---|---|---|---|
| December 31, 2019 | | | | |
| Cost | P 5,817,111,960 | P 5,692,736,082 | P 38,697,020 | P 11,548,545,062 |
| Accumulated depreciation and amortization | ( 624,111,121) | ( 139,705,539) | - | ( 763,816,660) |
| Net carrying value | **P 5,193,000,839** | **P 5,553,030,543** | **P 38,697,020** | **P 10,784,728,402** |
| December 31, 2018 | | | | |
| Cost | P 4,887,003,477 | P 6,202,106,714 | P 35,373,334 | P 11,124,483,525 |
| Accumulated depreciation and amortization | ( 447,050,266) | ( 139,705,539) | - | ( 586,755,805) |
| Net carrying value | P 4,439,953,211 | P 6,062,401,175 | P 35,373,334 | P 10,537,727,720 |
| January 1, 2018 | | | | |
| Cost | P 2,345,772,744 | P 5,750,966,547 | P 1,892,135,480 | P 9,988,874,771 |
| Accumulated depreciation and amortization | ( 356,091,418) | ( 139,705,539) | - | ( 495,796,957) |
| Net carrying value | P 1,989,681,326 | P 5,611,261,008 | P 1,892,135,480 | P 9,493,077,814 |

A reconciliation of the carrying amounts of investment property at the beginning and end of the reporting periods is shown in below.

| | Building and Improvements | Land and Land Development and Improvements | Construction in Progress | Total |
|---|---|---|---|---|
| Balance at January 1, 2019, net of accumulated depreciation and amortization | P 4,439,953,211 | P 6,062,401,175 | P 35,373,334 | P 10,537,727,720 |
| Additions | 329,609,235 | - | 3,323,686 | 332,932,921 |
| Reclassifications | 604,785,205 | ( 509,370,632) | - | 95,414,573 |
| Depreciation and amortization charges for the year | ( 181,346,812) | - | - | ( 181,346,812) |
| Balance at December 31, 2019, net of accumulated depreciation and amortization | **P 5,193,000,839** | **P 5,553,030,543** | **P 38,697,020** | **P 10,784,728,402** |
| Balance at January 1, 2018, net of accumulated depreciation and amortization | P 1,989,681,326 | P 5,611,261,008 | P 1,892,135,480 | P 9,493,077,814 |
| Additions | 684,468,587 | 451,140,167 | - | 1,135,608,754 |
| Reclassifications | 1,856,762,146 | - | ( 1,856,762,146) | - |
| Depreciation and amortization charges for the year | ( 90,958,848) | - | - | ( 90,958,848) |
| Balance at December 31, 2018, net of accumulated depreciation and amortization | P 4,439,953,211 | P 6,062,401,175 | P 35,373,334 | P 10,537,727,720 |

The construction of the office towers of SMI was completed in 2018 while the mall building was completed in 2017.

Rental revenues recognized in 2019 and 2018 amounted to P715.1 million and P379.6 million, respectively, and are presented as part of Rental Income account under Revenues and Income section in the consolidated statements of comprehensive income (see Note 25.2). Depreciation charges substantially represent the direct costs in leasing these properties. Other operating costs in leasing these properties include Real property taxes amounting to P19.6 million and P21.6 million in 2019 and 2018, respectively, and Repairs and maintenance amounting to P8.8 million and P7.6 million in 2019 and 2018, respectively. Real property taxes is included as part of Taxes and licenses while Repairs and maintenance is presented under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 21).

In 2019, the Group reclassified investment properties with a total carrying amount of P340.1 million to inventories as such properties are intended for future development. The Group also reclassified investment properties with a carrying amount of P169.3 million to property and equipment as such properties are used for operations (see Note 12).

Except for the Construction in progress and land held for undetermined future use, all of the Group's investment properties generated rental income as at December 31, 2019 and 2018.

Based on management's estimate, the fair value of building and improvements amounted to P13,048.1 million and P7,447.3 million as determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate of 5% and 10% as at December 31, 2019 and 2018, respectively.

On the other hand, the fair value of land and land development and improvements amounted to P26,332.4 million and P26,662.9 million as determined through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property as at December 31, 2019 and 2018, respectively.

Moreover, the carrying value of construction in progress approximates its fair value as of December 31, 2019 and 2018.

Other information about the fair value measurement and disclosures related to the investment property are presented in Note 31.3.

## 12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of the reporting periods are shown below.

| | Land | Building | Office Furniture, Fixtures and Equipment | Transportation and Other Equipment | Building and Office Improvements | Total |
|---|---|---|---|---|---|---|
| December 31, 2019 | | | | | | |
| Cost | P 1,600,000 | P 1,159,750,023 | P 280,579,978 | P 309,927,389 | P 112,074,944 | P 1,863,932,334 |
| Accumulated depreciation and amortization | - | ( 367,688,401) | ( 181,741,239) | ( 256,641,975) | ( 43,331,998) | ( 849,403,613) |
| Net carrying amount | **P 1,600,000** | **P 792,061,622** | **P 98,838,739** | **P 53,285,414** | **P 68,742,946** | **P 1,014,528,721** |
| December 31, 2018 | | | | | | |
| Cost | P 1,600,000 | P 986,116,047 | P 221,495,877 | P 260,901,369 | P 98,896,436 | P 1,569,009,729 |
| Accumulated depreciation and amortization | - | ( 340,365,358) | ( 162,463,115) | ( 205,505,026) | ( 24,729,328) | ( 733,062,827) |
| Net carrying amount | P 1,600,000 | P 645,750,689 | P 59,032,762 | P 55,396,343 | P 74,167,108 | P 835,946,902 |
| January 1, 2018 | | | | | | |
| Cost | P 1,600,000 | P 986,116,047 | P 177,825,086 | P 241,903,027 | P 92,966,874 | P 1,500,411,034 |
| Accumulated depreciation and amortization | - | ( 316,055,475) | ( 143,641,361) | ( 162,866,087) | ( 14,915,125) | ( 637,478,048) |
| Net carrying amount | P 1,600,000 | P 670,060,572 | P 34,183,725 | P 79,036,940 | P 78,051,749 | P 862,932,986 |

A reconciliation of the carrying amounts of property and equipment at the beginning and end of the reporting periods is shown below.

| | Land | Building | Office Furniture, Fixtures and Equipment | Transportation and Other Equipment | Building and Office Improvements | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2019 net of accumulated depreciation and amortization | P 1,600,000 | P 645,750,689 | P 59,032,762 | P 55,396,343 | P 74,167,108 | P 835,946,902 |
| Additions | - | - | 59,783,285 | 49,026,020 | 13,178,508 | 121,987,813 |
| Reclassification to investment property | - | 169,331,972 | - | - | - | 169,331,972 |
| Disposals | - | - | ( 699,184) | - | - | ( 699,184 ) |
| Depreciation and amortization charges for the year | - | ( 23,021,039) | ( 19,278,124) | ( 51,136,949) | ( 18,602,670) | ( 112,038,782) |
| Balance at December 31, 2019, net of accumulated depreciation and amortization | **P 1,600,000** | **P 792,061,622** | **P 98,838,739** | **P 53,285,414** | **P 68,742,946** | **P 1,014,528,721** |
| Balance at January 1, 2018 net of accumulated depreciation and amortization | P 1,600,000 | P 670,060,572 | P 34,183,725 | P 79,036,940 | P 78,051,749 | P 862,932,986 |
| Additions | - | - | 41,688,921 | 18,998,342 | 5,929,562 | 66,616,825 |
| Addition due to acquired subsidiary | - | - | 2,024,638 | - | - | 2,024,638 |
| Disposals | - | - | ( 14,256) | - | - | ( 14,256) |
| Depreciation and amortization charges for the year | - | ( 24,309,883) | ( 18,850,266) | ( 42,638,939) | ( 9,814,203) | ( 95,613,291) |
| Balance at December 31, 2018, net of accumulated depreciation and amortization | P 1,600,000 | P 645,750,689 | P 59,032,762 | P 55,396,343 | P 74,167,108 | P 835,946,902 |

Depreciation and amortization of property and equipment is presented as part of Depreciation and amortization under Operating Expenses account in the consolidated statements of income (see Note 21).

The Group's fully depreciated assets that are still being used in operations has a total original cost of P181.6 million and P152.2 million as at December 31, 2019 and 2018, respectively.

## 13. LEASES

The Group, as a lessee, has leases for certain offices and commercial lot. With the exception of short-term leases, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over offices, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognized in the statement of financial position.

| | Number of right-of-use assets leased | Range of remaining term | Average remaining lease term | Number of leases with extension options | Number of leases with termination options |
|---|---|---|---|---|---|
| Offices | 2 | 3 – 14 years | 14 years | 2 | 2 |
| Commercial lot | 1 | 28 years | 28 years | 1 | 1 |

### *13.1 Right-of-use Assets*

The carrying amounts of the Group's right-of-use assets as at December 31, 2019 and the movements during the period are shown below.

| | Office | Commercial Lot | Total |
|---|---|---|---|
| Balance at beginning of year | P 202,411,637 | P 25,654,963 | P 228,066,600 |
| Depreciation and amortization | ( 57,826,083) | ( 1,368,265) | ( 59,194,348) |
| Balance at end of year | **P 144,585,554** | **P 24,286,698** | **P 168,872,252** |

### *13.2 Lease Liabilities*

Lease liabilities are presented in the statement of financial position as at December 31, 2019 as follows:

| | |
|---|---|
| Current | P 64,456,834 |
| Non-current | 429,834,849 |
| | **P 494,291,683** |

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows:

| | Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| Lease payment | P 101,225,384 | P 100,623,729 | P 40,350,217 | P 30,297,584 | P 30,360,082 | P777,489,228 | P1,080,346,224 |
| Finance charges | ( 36,768,550) | ( 31,756,675 ) | ( 27,642,703 ) | ( 27,237,319) | ( 26,967,596) | ( 435,681,698) | ( 586,054,541 ) |
| Net present value | **P 64,456,834** | **P 68,867,054** | **P 12,707,514** | **P 3,060,265** | **P 3,392,486** | **P341,807,530** | **P 494,291,683** |

### *13.3 Lease Payments Not Recognized as Liabilities*

The Group has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses related to short-term leases amounted to P108.3 million and are presented as part of Other Operating Expenses and as part of Cost of Hotel Operations account in the 2019 consolidated statement of comprehensive income (see Note 21).

At December 31, 2019, the Company is committed to short-term leases, and the total commitment at that date is P6.2 million.

### *13.4 Additional Profit or Loss and Cash Flow Information*

The total cash outflow in respect of leases amounted to P151.9 million in 2019. Interest expense in relation to lease liabilities amounted to P35.9 million and is presented as part of Finance Costs and Other Charges in the 2019 consolidated statement of comprehensive income (see Note 20.2).

## 14. OTHER NON-CURRENT ASSETS

This account consists of:

| | Note | **2019** | 2018 |
|---|---|---|---|
| Advances to contractors | | **P 134,108,998** | P 148,909,857 |
| Refundable deposits | 29.2 | **122,749,105** | 118,009,922 |
| Softwares | | **5,338,243** | - |
| Development rights – net | | **-** | 265,076,899 |
| Others | | **3,025,371** | 1,715,331 |
| | | **P 265,221,717** | P 533,712,009 |

On October 29, 2015, the Company acquired development rights over 10,994.86 sq.m. undivided portions of land (the Subject Premises) owned by a government entity located in Quezon City for a period of 32 years.

North Triangle Depot Commercial Corporation (NTDCC), a third party, has offered to lease the development rights from the Company on October 29, 2015 up to its expiration. As part of the consideration of the lease between the Company and NTDCC, the latter shall reimburse the Company for the accumulated development rights payments related to the Subject Premises in the amount of P294.4 million. As a result, the Group recognized Development rights and Advance rental of the same amount to be amortized over the term of the lease of 32 years and are presented as part of Other Non-current Asset account and as part of Other Non-current Liabilities account, respectively, in the consolidated statements of financial position (see Note 18). In addition to the advance rental, NTDCC is also obliged to pay annual rent to the Company amounting to P62.5 million starting on the third anniversary of the lease up to 2025.

Amortization expense related to the development rights amounted to P9.2 million in 2018, 2017 and is included as part of Depreciation and amortization under the Cost of Rentals and Services account (see Note 22.2) while the rental income arising from this transaction amounted to P46.9 million in 2018, and 2017, and is included as part of Rental Income account in the 2018 and 2017 consolidated statements of comprehensive income. Rental receivable recognized from the aforementioned transactions amounted to P57.7 million as of December 31, 2018, and is presented as part of Others under the Trade and Other Receivables account in the 2018 consolidated statement of financial position (see Note 6).

On January 1, 2019, due to the adoption of PFRS 16, the development rights was reclassified to right-of-use asset. In addition, the sublease with NTDCC which was previously accounted as an operating lease has qualified as a finance lease. This was accounted as a new finance lease at the date of initial application. As a result, the Group recognized finance lease receivable amounting to P669.3 million. Accordingly, the carrying amount of the advance rental received from NTDCC amounting to P265.1 million was derecognized. The effect of recognizing net investment in the sublease was presented as an adjustment to opening balance of retained earnings [see Notes 2.2(iv)(f)].

The carrying amount of finance lease receivable as of December 31, 2019 is presented as part of Trade and Other Receivables (see Note 6). Interest income on the finance lease amounted to P44.3 million presented as part of Finance Income under Finance and Other Income account in the 2019 consolidated statement of comprehensive income (see Note 20.1).

## 15. INTEREST-BEARING LOANS

The Group's interest-bearing loans are broken down as follows:

| | 2019 | 2018 |
|---|---|---|
| Current | **P1,555,555,898** | P 1,574,466,462 |
| Non-current | **3,468,750,000** | 2,486,305,898 |
| | **P5,024,305,898** | P 4,060,772,360 |

In 2019, the Company obtained an unsecured long-term loan from a local bank amounting to P2.0 billion, payable quarterly for a term of five years. The loan bears a floating interest rate and is payable quarterly in arrears. The outstanding balance pertaining to this loan amounted to P2.0 billion as of December 31, 2019.

In August and November 2019, TLC obtained an unsecured and interest-bearing loans from a local commercial bank amounting to P300.0 million and P200.0 million, respectively, for the funding requirements of the construction of a project. The loan is payable quarterly for a term of five years and bears a floating interest rate. The outstanding balance pertaining to this loan amounted to P0.5 billion as of December 31, 2019.

In November 2018, SWEC renewed its credit line facility with a local bank amounting to P150.0 million, which shall be used for working capital purposes. In December 2018, initial loan drawdown for this line amounted to P50.0 million, payable within 180 days. This was extended for another 180 days in 2019. Upon expiration, SWEC paid the P12.0 million portion of the loan and extended the remaining P38.0 million for another 180 days.

In December 2017, the Company obtained an unsecured long-term loan from a local bank amounting to P2.0 billion. The loan is payable quarterly for a term of five years commencing on the beginning of the fifth quarter from the initial drawdown date. The loan bears a floating interest rate and is payable quarterly in arrears. The outstanding balance pertaining to this loan amounted to P1.5 billion and P2.0 billion as at December 31, 2019 and 2018.

In 2016, the Company obtained a P2.0 billion unsecured loan with a term of five years from a local bank with principal to be paid in quarterly instalments, commencing on the 5th quarter from date of initial drawdown. This loan carries a floating interest rate, which is repriced every 30 to 180 days as agreed by the parties. On October 25, 2018, the interest rate was fixed subject to repricing after one year. The interest is payable quarterly in arrears. The outstanding balance pertaining to this loan amounted to P0.7 billion and P1.3 billion as at December 31, 2019 and 2018, respectively.

In 2015, the Company obtained a P1.5 billion unsecured loan with a term of five years from the initial drawdown, inclusive of a grace period on principal repayment of two years. The loan bears a fixed interest rate payable quarterly in arrears. The outstanding balance pertaining to this loan amounted to P0.2 billion and P0.7 billion as at December 31, 2019 and 2018, respectively.

In 2015, OPI obtained a long-term unsecured interest-bearing loan from a local financial institution. The loan will mature on May 28, 2020 and bears a fixed interest rate of 5.04%. The outstanding balance pertaining to this loan amounted to P5.5 million and P0.1 billion as at December 31, 2019 and 2018, respectively.

The Group has properly complied with the loan agreements' covenants as of the end of the reporting period (see Note 32).

The total accrued interest payable amounted to P13.0 million and P14.3 million as of December 31, 2019 and 2018, respectively, is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

Total interest costs incurred attributable to these loans amounted to P291.6 million, P265.4 million and P257.9 million in 2019, 2018 and 2017, respectively. Of these amounts, P136.3 million, P123.2 million and P144.3 million in 2019, 2018 and 2017, respectively, were capitalized by the Company as part of Inventories account (see Note 7). Interest charged to expense is presented as part of Finance costs under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 20.2).

## 16. TRADE AND OTHER PAYABLES

This account consists of:

| | Notes | 2019 | 2018 |
|---|---|---|---|
| Trade payables | | **P2,793,429,162** | P2,651,529,446 |
| Liabilities for land acquisition | | **399,122,150** | 445,025,128 |
| Retention payable | 18 | **313,936,806** | 40,383,531 |
| Accrued expenses | 15, 26.3 | **145,702,207** | 310,161,069 |
| Income tax payable | | **143,464,570** | 43,358,180 |
| Others | | **155,307,711** | 109,430,827 |
| | | **P3,950,962,606** | P3,599,888,181 |

Trade payables mainly represent obligations to subcontractors and suppliers of construction materials for the Group's projects.

Liabilities for land acquisition represent the unpaid portion of raw land acquired by the Group for the development of real estate projects.

Accrued expenses represent accruals for dividends on preferred shares, commission, utilities, professional fees, outside services, interest and other expenses incurred in the normal operations of the Group.

Retention payable pertains to amount withheld from payments made to contractors to ensure compliance and completion of contracted projects equivalent to 10% of every billing made by the contractor. Upon completion of the contracted projects, the amounts are remitted back to the contractors. Those which are due to be remitted beyond 12 months from the end of the reporting period is presented under Other Non-current Liabilities in the consolidated statements of financial position (see Note 18).

Other payables consist primarily of refund liability, unearned rentals, payables to government and other regulatory agencies.

## 17. DUE TO JOINT VENTURE PARTNERS

This account represents the share of joint venture (JV) partners in the proceeds from the sale of certain projects in accordance with various JV agreements entered into by the Group.

The account pertains to payables to golf share partners and lot owners amounting to P356.2 million and P395.4 million as of December 31, 2019 and 2018, respectively.

The amortization of deferred interest amounting to P11.3 million and P19.8 million in 2018 and 2017, respectively, is presented as part of Finance costs under the Finance Costs and Other Charges account in the 2018 and 2017 consolidated statements of comprehensive income (see Note 20.2). No amortization was recognized in 2019 as the deferred interest was fully amortized in 2018.

## 18. OTHER NON-CURRENT LIABILITIES

The details of the account are as follows:

| | Notes | **2019** | 2018 |
|---|---|---|---|
| Retention payable | 16 | **P 579,795,840** | P 820,919,633 |
| Security deposits | | **98,944,348** | 134,887,028 |
| Advance rental | 14 | **3,687,991** | 265,911,811 |
| Others | | **215,071** | 10,496,525 |
| | | **P 682,643,250** | P1,232,214,997 |

## 19. REVENUES

### *19.1 Disaggregation of Revenues*

The Group derives revenues mainly from sale of real properties, rentals and hotel operations. An analysis of the Group's major sources of revenues is presented below and in the succeeding page.

| | **Segments** | | | |
|---|---|---|---|---|
| | **Real Estate** | **Hotel Operations** | **Rentals** | **Total** |
| **2019** | | | | |
| **Geographical areas:** | | | | |
| Luzon | P 3,774,328,673 | P 133,679,197 | P 720,830,644 | P 4,628,838,514 |
| Visayas | 2,287,763,243 | 680,248,947 | 25,861,201 | 2,993,873,391 |
| | **P 6,062,091,916** | **P 813,928,144** | **P 746,691,845** | **P 7,622,711,905** |
| **Types of product or services:** | | | | |
| Residential lots | P 2,892,092,383 | P - | P - | P 2,892,092,383 |
| Residential condominium | 2,926,429,390 | - | - | 2,926,429,390 |
| Commercial lots and spaces | 243,570,143 | - | - | 243,570,143 |
| Room accommodation | - | 701,825,855 | - | 701,825,855 |
| Food and beverage | - | 112,102,289 | - | 112,102,289 |
| Rentals | - | - | 746,691,845 | 746,691,845 |
| | **P 6,062,091,916** | **P 813,928,144** | **P 746,691,845** | **P 7,622,711,905** |

| | Segments | | | |
|---|---|---|---|---|
| | Real Estate | Hotel Operations | Rentals | Total |
| 2018 | | | | |
| Geographical areas: | | | | |
| Luzon | P 4,287,652,369 | P 3,930,738 | P 426,536,057 | P 4,718,119,164 |
| Visayas | 2,082,370,927 | 220,027,616 | - | 2,302,398,543 |
| Mindanao | 532,126 | - | - | 532,126 |
| | P 6,370,555,422 | P 223,958,354 | P 426,536,057 | P 7,021,049,833 |
| Types of product or services: | | | | |
| Residential lots | P 3,117,432,561 | P - | P - | P 3,117,432,561 |
| Residential condominium | 3,068,377,154 | - | - | 3,068,377,154 |
| Commercial lots and spaces | 184,745,707 | - | - | 184,745,707 |
| Room accommodation | - | 194,768,503 | - | 194,768,503 |
| Food and beverage | - | 28,229,958 | - | 28,229,958 |
| Other room services | - | 959,893 | - | 959,893 |
| Rentals | - | - | 426,536,057 | 426,536,057 |
| | P 6,370,555,422 | P 223,958,354 | P 426,536,057 | P 7,021,049,833 |
| 2017 | | | | |
| Geographical areas: | | | | |
| Luzon | P 3,401,259,785 | P - | P 161,258,835 | P 3,562,518,620 |
| Visayas | 1,855,499,406 | 349,155,484 | - | 2,204,654,890 |
| | P 5,256,759,191 | P 349,155,484 | P 161,258,835 | P 5,767,173,510 |
| Types of product or services:o | | | | |
| Residential lots | P 2,992,810,359 | P - | P - | P 2,992,810,359 |
| Residential condominium | 2,032,759,770 | - | - | 2,032,759,770 |
| Commercial lots and spaces | 231,189,062 | - | - | 231,189,062 |
| Room accommodation | - | 305,740,597 | - | 305,740,597 |
| Food and beverage | - | 41,715,777 | - | 41,715,777 |
| Other room services | - | 1,699,110 | - | 1,699,110 |
| Rentals | - | - | 161,258,835 | 161,258,835 |
| | P 5,256,759,191 | P 349,155,484 | P 161,258,835 | P 5,767,173,510 |

### *19.2 Contract Accounts*

The significant changes in the contract assets and liabilities balances during the year are as follows:

a. *Contract Assets*

The Group's contract assets are classified as follows:

| | **2019** | 2018 |
|---|---|---|
| Current | **P1,170,459,539** | P2,394,582,192 |
| Non-current | **372,090,385** | 1,135,598,493 |
| | **P1,542,549,924** | P3,530,180,685 |

The significant changes in the contract assets balances during the year are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **P3,530,180,685** | P2,360,534,068 |
| Transfers from contract assets recognized at the beginning of year to installment contract receivables | **( 3,619,846,311)** | ( 571,936,412) |
| Increase as a result of changes in measurement of progress | **1,632,215,550** | 1,741,583,029 |
| Balance at end of year | **P1,542,549,924** | P3,530,180,685 |

b. *Contract Liabilities*

The Group's contract liabilities is classified as follows:

| | **2019** | 2018 |
|---|---|---|
| Current | **P 657,575,886** | P 272,728,734 |
| Non-current | **575,066,812** | 796,103,382 |
| | **P1,232,642,698** | P1,068,832,116 |

The significant changes in the contract liabilities balances during the year are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **P 1,068,832,116** | P 980,595,059 |
| Revenue recognized that was included in contract liability at the beginning of year | **( 481,342,349)** | ( 191,077,440) |
| Increase due to cash received excluding amount recognized as revenue during the year | **645,152,931** | 279,314,497 |
| Balance at end of year | **P1,232,642,698** | P1,068,832,116 |

### *19.3 Direct Contract Costs*

The Group incurs sales commissions upon execution of contracts to sell real properties to customers. Incremental costs of commission incurred to obtain contracts are capitalized and presented as Deferred commission presented under Prepayments and Other Current Assets account in the consolidated statements of financial position (see Note 8). These are amortized over the expected construction period on the same basis as how the Company measures progress towards complete satisfaction of its performance obligation in its contracts. The total amount of amortization for 2019, 2018 and 2017 is presented as part of Commission under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 21).

The movements in balances of deferred commission in 2019 and 2018 is presented below.

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **P 168,584,563** | P 161,257,704 |
| Additional capitalized cost | **816,685** | 143,539,325 |
| Amortization for the period | **( 28,976,773)** | ( 136,212,466) |
| Balance at end of year | **P 140,424,475** | P 168,584,563 |

### *19.4 Transaction Price Allocated to Unsatisfied Performance Obligations*

The aggregate amount of transaction price allocated to partially or wholly unsatisfied contracts as of December 31, 2019 and 2018 is P3.0 billion and P2.6 billion, respectively. The Company expects to recognize revenue from unsatisfied contracts as of December 31 as below.

| | 2019 | 2018 |
|---|---|---|
| Within a year | **P 415,791,010** | P 1,451,270,899 |
| More than one year to three years | **2,186,513,933** | 1,142,739,062 |
| More than three years to five years | **380,908,685** | - |
| | **P 2,983,213,628** | P 2,594,009,961 |

## 20. FINANCE INCOME AND FINANCE COSTS

### *20.1 Finance and Other Income*

Presented below are the details of this account.

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Marketing fees | 9 | **P 180,867,447** | P 156,893,125 | P 71,166,750 |
| Finance income | 5, 6, 9, 14 | **159,732,966** | 134,799,289 | 47,104,806 |
| Gain on bargain purchase | 1.2 | **-** | 10,774,664 | - |
| Foreign currency gains – net | | **-** | 4,013,772 | - |
| Gain on derecognition of payables | | **76,848,443** | - | - |
| Miscellaneous | | **50,726,146** | 59,269,199 | 26,393,210 |
| | | **P 468,175,002** | P 365,750,049 | P 144,664,766 |

Miscellaneous income includes forfeiture of reservation fees from customers.

### 20.2 Finance Costs and Other Charges

Presented below are the details of this account.

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Finance costs | 13, 15, 17, 23.2, 25.2, 25.4, 26.3 | **P 236,057,259** | P 205,395,234 | P 98,101,836 |
| Day-one loss | 6 | **155,566,744** | 64,550,790 | 58,648,307 |
| Loss on refund | | **39,063,331** | 39,163,991 | 8,447,577 |
| Impairment loss | 10.1 | - | 4,908,934 | - |
| Foreign currency losses – net | | **5,308,846** | - | 3,996,459 |
| Miscellaneous | | **400,390** | - | - |
| | | **P 436,396,570** | P 314,018,949 | P 169,194,179 |

A loss on refund is recognized when the customer is entitled for a refund on sales cancellation.

## 21. OPERATING EXPENSE BY NATURE

Presented below are the details of this account.

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Cost of real estate sales | 22.1 | **P 2,794,278,385** | P 3,018,683,870 | P 2,384,998,130 |
| Cost of hotel operations | 22.3 | **442,819,864** | 158,162,392 | 218,820,207 |
| Salaries and employee benefits | 23.1 | **540,171,801** | 322,004,469 | 284,364,505 |
| Commissions | 19.3, 25.5 | **372,735,140** | 256,185,501 | 206,068,277 |
| Depreciation and amortization | 11, 12, 13, 14 | **352,579,942** | 195,819,007 | 129,832,310 |
| Taxes and licenses | 11 | **160,992,513** | 133,313,517 | 136,568,954 |
| Utilities and supplies | | **96,475,962** | 66,194,670 | 36,154,751 |
| Professional fees and outside services | | **71,364,878** | 104,655,946 | 55,329,057 |
| Rental | 25.2 | **60,877,616** | 124,324,359 | 93,124,371 |
| Advertising and promotions | | **55,533,804** | 23,985,331 | 33,122,797 |
| Transportation | | **23,815,725** | 20,705,066 | 29,452,822 |
| Repairs and maintenance | 11 | **8,842,327** | 7,627,554 | 6,471,277 |
| Representation | | **7,293,633** | 7,050,121 | 5,308,083 |
| Gas and oil | | **2,058,248** | 1,813,747 | 1,738,812 |
| Miscellaneous | 25.6, 6, 29.2 | **315,534,600** | 230,827,659 | 177,904,441 |
| | | **P 5,305,374,438** | P 4,671,353,209 | P 3,799,258,794 |

Miscellaneous expenses mainly include insurance, membership dues, communication expense, service fees charged by a stockholder and cost of materials and overhead incurred in relation to the maintenance of the golf course.

These expenses are classified in the consolidated statements of comprehensive income as follows:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Cost of real estate sales | 22.1 | **P 2,794,278,385** | P 3,018,683,870 | P 2,384,998,130 |
| Cost of hotel operations | 22.3 | **442,819,864** | 158,162,392 | 218,820,207 |
| Cost of rentals and services | 22.2 | **331,144,642** | 202,125,585 | 139,524,416 |
| Other operating expenses | | **1,737,131,547** | 1,292,381,362 | 1,055,916,041 |
| | | **P 5,305,374,438** | P 4,671,353,209 | P 3,799,258,794 |

## 22. DIRECT COSTS

### *22.1 Cost of Real Estate Sales*

The composition of the cost of real estate sales for the year ended December 31 are as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Land cost | **P 248,034,848** | P 267,567,689 | P 304,298,348 |
| Construction costs | **2,450,708,835** | 2,650,921,529 | 2,026,422,834 |
| Borrowing cost | **95,534,702** | 100,194,652 | 54,276,948 |
| | **P 2,794,278,385** | P 3,018,683,870 | P 2,384,998,130 |

### *22.2 Cost of Rentals and Services*

The composition of the cost of rentals for the year ended December 31 are as follows:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Depreciation and amortization | 14 | **P 193,986,612** | P 126,988,960 | P 68,773,329 |
| Land development and construction | | **74,385,748** | 38,436,901 | 36,193,434 |
| Maintenance | | **39,635,110** | 21,051,763 | 19,823,025 |
| Civil works and survey | | **15,881,175** | 11,276,510 | 10,618,328 |
| Landscape | | **7,255,997** | 4,371,451 | 4,116,300 |
| | | **P 331,144,642** | P 202,125,585 | P 139,524,416 |

### *22.3 Cost of Hotel Operations*

The composition of the cost of hotel operations for the year ended December 31 are as follows:

| | | **2019** | | 2018 | | 2017 |
|---|---|---|---|---|---|---|
| Utilities | **P** | **115,527,197** | P | 35,798,386 | P | 42,914,818 |
| Club bookings | | **90,792,259** | | 40,758,310 | | 69,949,254 |
| Food and beverage | | **68,030,870** | | 15,400,998 | | 23,800,801 |
| Rent expense | | **47,442,082** | | - | | - |
| Salaries and employee benefits | | **34,389,716** | | 11,193,765 | | 15,479,178 |
| Outside services | | **28,595,198** | | 15,524,569 | | 22,222,771 |
| Commission | | **15,247,664** | | 8,773,523 | | 14,706,728 |
| Depreciation | | **8,113,540** | | 7,754,502 | | 8,600,171 |
| Repairs and maintenance | | **5,303,001** | | 5,426,110 | | 4,683,790 |
| Miscellaneous | | **29,378,337** | | 17,532,229 | | 16,462,696 |
| | **P** | **442,819,864** | P | 158,162,392 | P | 218,820,207 |

## 23. EMPLOYEE BENEFITS

### *23.1 Salaries and Employee Benefits*

Salaries and employee benefits which are presented as part of Other Operating Expenses in the consolidated statements of comprehensive income are shown below.

| | Notes | | **2019** | | 2018 | | 2017 |
|---|---|---|---|---|---|---|---|
| Short-term benefits | | **P** | **531,089,188** | P | 307,379,874 | P | 260,908,938 |
| Post-employment defined benefit | 23.2 | | **8,189,660** | | 11,317,437 | | 13,416,254 |
| Share-based employee compensation | 26.2 | | **892,953** | | 3,307,158 | | 10,039,313 |
| | 21 | **P** | **540,171,801** | P | 322,004,469 | P | 284,364,505 |

### *23.2 Post-employment Defined Benefit Plan*

*(a) Characteristics of the Defined Benefit Plan*

The Group has an unfunded, non-contributory defined benefit plan covering all regular employees. The plan provides for lump-sum benefits equivalent to 85% to 150% of the employee's monthly salary for every year of service depending on the number of years of service. The normal retirement age is 60 years old and applicable upon completion of five years of faithful and continuous service to the Group. However, an employee who attains the age of 50 with the completion of no less than 10 years of service or has completed 15 years of service and opts for an early retirement is likewise entitled to the same benefits.

*(b) Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2019 and 2018.

The movements in present value of the retirement benefit obligation are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **P 49,995,320** | P 63,688,766 |
| Current service cost | **8,189,660** | 11,317,437 |
| Interest expense | **4,409,032** | 3,413,723 |
| Actuarial losses (gains) arising from: | | |
| Changes in financial assumptions | **41,123,963** | ( 30,309,417) |
| Experience adjustments | **4,395,049** | 2,690,034 |
| Benefits paid | **( 954,800)** | ( 805,223) |
| Balance at end of year | **P 107,158,224** | P 49,995,320 |

The amounts of post-employment benefit recognized in the consolidated statements of comprehensive income are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| *Reported in profit or loss:* | | | |
| Current service cost | **P 8,189,660** | P 11,317,437 | P 13,416,254 |
| Interest cost | **4,409,032** | 3,413,723 | 2,732,094 |
| | **P 12,598,692** | P 14,731,160 | P 16,148,348 |
| *Reported in other comprehensive income –* | | | |
| Actuarial losses (gains) arising from: | | | |
| Changes in financial assumptions | **P 41,123,963** | (P 30,309,417) | (P 10,114,558) |
| Experience adjustments | **4,395,049** | 2,690,034 | ( 2,638,477) |
| | **P 45,519,012** | (P 27,619,383) | (P 12,753,035) |

The amounts of current service cost incurred are presented as part of Salaries and employee benefits under Other Operating Expenses account in the consolidated statements of comprehensive income (see Notes 21 and 23.1). The amounts of interest expense related to the retirement benefit obligation are presented as part of Finance costs under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 20.2).

The amount recognized in other comprehensive income is included as an item that will not be reclassified subsequently to profit or loss.

In determining the amount of retirement benefit obligation, the following actuarial assumptions were used for the reporting periods:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Discount rates | **4.99%** | 8.88% | 5.37% |
| Expected rate of salary increase | **5.00%** | 5.00% | 5.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average expected remaining working life of employees retiring at the age of 60 is 24 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c) Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as interest rate risk and longevity and salary risks.

*(i) Interest Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the Group's timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

*(i) Sensitivity Analysis*

| | Impact on Retirement Benefit Obligation | | |
|---|---|---|---|
| | Change in Assumptions | Increase in Assumptions | Decrease in Assumptions |
| **December 31, 2019** | | | |
| Discount rate | **+/- 0.5%** | **(P 8,329,594)** | **P 9,441,410** |
| Salary increase rate | **+/- 1.0%** | **19,436,408** | **( 15,409,008)** |
| December 31, 2018 | | | |
| Discount rate | +/- 0.5% | (P 2,307,258) | P 2,621,598 |
| Salary increase rate | +/- 1.0% | 5,587,871 | ( 4,434,027) |

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) Funding Arrangements and Expected Contributions*

The plan is currently unfunded as at December 31, 2019. While there is no minimum funding requirement in the country, the non-funding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire.

As at December 31, 2019, the Group is yet to determine how much and when to fund the post-employment benefit plan.

The maturity profile for the next 20 years of undiscounted expected benefit payments from the plan follows:

| | | **2019** | | 2018 |
|---|---|---|---|---|
| Within one year | **P** | **4,099,917** | P | 1,547,794 |
| More than one year to five years | | **14,893,840** | | 11,252,663 |
| More than five years to ten years | | **50,796,096** | | 45,763,752 |
| More than ten years to 15 years | | **49,060,032** | | 46,990,344 |
| More than 15 years to 20 years | | **156,478,080** | | 92,747,049 |
| | **P** | **275,327,965** | P | 198,301,602 |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 24 years.

## 24. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in the consolidated statements of comprehensive income are as follows:

| | | **2019** | | 2018 | | 2017 |
|---|---|---|---|---|---|---|
| *Reported in profit or loss:* | | | | | | |
| Current tax expense: | | | | | | |
| Regular corporate income tax (RCIT) at 30% | **P** | **585,912,738** | P | 358,252,655 | P | 401,248,008 |
| Minimum corporate income tax (MCIT) at 2% | | **3,721,366** | | 7,336,263 | | 2,681,515 |
| Final tax at 20% and 15% in 2018; and 7.5% in 2017 | | **3,232,513** | | 10,392,398 | | 3,736,078 |
| *Balance brought forward* | **P** | **592,866,617** | P | 375,981,316 | P | 407,665,601 |

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| *Balance carried forward* | **P 592,866,617** | P 375,981,316 | P 407,665,601 |
| Deferred tax expense relating to origination and reversal of temporary differences | **199,945,342** | 435,685,206 | 268,300,063 |
| | **P 792,811,959** | P 811,666,522 | P 675,965,664 |
| *Reported in other comprehensive income –* | | | |
| Deferred tax expense (income) relating to remeasurements of retirement benefit plan | **(P 13,655,704)** | P 6,663,399 | P 3,495,352 |

A reconciliation of tax on pretax profit computed at the applicable statutory rates to income tax expense reported in the consolidated statements of comprehensive income is as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Tax on pretax profit at 30% | **P 812,864,654** | P 760,786,073 | P 657,150,978 |
| Adjustments for income subjected to lower income tax rates | **( 1,646,124)** | ( 5,257,593) | ( 2,081,549) |
| Tax effects of: | | | |
| Non-deductible expenses | **55,529,431** | 57,760,414 | 48,106,419 |
| Non-taxable income | **( 39,101,724)** | ( 3,302,392) | ( 38,038,981) |
| Income tax benefit from previously unrecognized deferred tax assets | **( 24,554,113)** | - | 51,489 |
| Application of net-operating loss carry-over (NOLCO) | **( 16,493,280)** | - | - |
| Expired deferred tax assets | **3,273,168** | 1,668,387 | 103,968 |
| Unrecognized deferred tax assets | **1,535,206** | - | 9,517,941 |
| Non-deductible interest expense | **1,404,741** | 11,633 | 1,155,399 |
| Tax expense | **P 792,811,959** | P 811,666,522 | P 675,965,664 |

The Group's net deferred tax liabilities relate to the following as at December 31:

| | 2019 | 2018 |
|---|---|---|
| Deferred tax liabilities: | | |
| Unrealized gross profit on real estate sales | **P 1,610,243,094** | P 1,415,753,628 |
| Finance lease [see Note 2.2(a)(iv)] | **118,342,195** | - |
| Capitalized borrowing cost | **96,186,219** | 91,028,056 |
| Rental income | **82,623,057** | 42,737,027 |
| Deferred commission | **52,114,828** | 48,990,255 |
| Unrealized foreign exchange gains – net | **-** | 616,707 |
| *Balance brought forward* | **P 1,959,509,393** | P 1,599,125,673 |

| | 2019 | 2018 |
|---|---|---|
| *Balance carried forward* | **P 1,959,509,393** | P 1,599,125,673 |
| Deferred tax assets: | | |
| Allowance for impairment | **( 146,044,623)** | ( 145,635,112) |
| Accrued expenses | **( 130,603,708)** | ( 74,775,641) |
| Share-based employee compensation | **( 70,927,670)** | ( 70,659,784) |
| Retirement benefit obligation | **( 21,992,860)** | ( 6,738,110) |
| MCIT | **( 13,739,144)** | ( 12,718,287) |
| Leases [see Note 2.2(a)(iv)] | **( 7,817,568)** | - |
| Unrealized forex losses – net | **( 1,592,655)** | - |
| NOLCO | **-** | ( 16,493,280) |
| | **( 392,718,228)** | ( 327,020,214) |
| | **P 1,566,791,165** | P 1,272,105,459 |

The components of deferred tax expense (income) are as follows:

| | Consolidated Statements of Comprehensive Income | | | | | |
|---|---|---|---|---|---|---|
| | Profit or Loss | | | Other Comprehensive Income | | |
| | **2019** | 2018 | 2017 | **2019** | 2018 | 2017 |
| Unrealized profit on real estate sales | **P 194,489,466** | P 402,733,553 | P 243,459,137 | **P -** | P - | P - |
| Finance lease | **13,276,680** | - | - | - | - | - |
| Capitalized borrowing cost | **5,158,163** | 1,391,553 | 17,591,038 | **-** | - | - |
| Rental income | **39,886,030** | 17,703,388 | 12,439,420 | **-** | - | - |
| Deferred commission | **3,124,573** | 3,291,009 | ( 129,300) | **-** | - | - |
| Unrealized foreign exchange gains - net | **( 616,707)** | 616,707 | ( 1,717,427) | **-** | - | - |
| Allowance for impairment | **( 409,511)** | - | - | **-** | - | - |
| Accrued expenses | **( 55,828,067)** | 11,495,241 | 12,625,345 | **-** | - | - |
| Share-based employee compensation | **( 267,886)** | ( 992,147) | ( 3,011,794) | **-** | - | - |
| Retirement benefit obligation | **( 1,599,046)** | 3,423,379 | ( 3,994,056) | **( 13,655,704)** | 6,663,399 | 3,495,352 |
| MCIT | **( 1,020,857)** | ( 5,667,876) | ( 2,577,547) | **-** | - | - |
| Leases | **( 11,148,121)** | - | - | - | - | - |
| Unrealized foreign exchange losses - net | **( 1,592,655)** | 1,200,645 | ( 1,200,645) | **-** | - | - |
| NOLCO | **16,493,280** | 489,754 | ( 5,184,108) | **-** | - | - |
| Deferred tax expense (income) | **P 199,945,342** | P 435,685,206 | P 268,300,063 | **(P 13,655,704)** | P 6,663,399 | P 3,495,352 |

The details of NOLCO which was applied and expired during the year are shown below.

| Year Incurred | Original Amount | Applied During the Year | Expired During the Year | Remaining Balance | Valid Until |
|---|---|---|---|---|---|
| 2019 | P 307,785 | P - | P - | P 307,785 | 2022 |
| 2018 | 25,720,027 | ( 25,720,027) | - | - | 2021 |
| 2017 | 17,280,360 | ( 17,280,360) | - | - | 2020 |
| 2016 | 11,977,213 | ( 11,977,213) | - | - | |
| | **P 55,285,385** | **(P 54,977,600)** | **P -** | **P 307,785** | |

Majority of the entities within the Group are subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. The total of the MCIT paid by certain subsidiaries, which can be applied as deduction from their respective future RCIT payable within three years from the year the MCIT was incurred, are shown below.

| Year Incurred | Original Amount | Applied During the Year | Expired During the Year | Remaining Balance | Valid Until |
|---|---|---|---|---|---|
| 2019 | P 3,721,366 | P - | P - | P 3,721,366 | 2022 |
| 2018 | 7,336,263 | - | - | 7,336,263 | 2021 |
| 2017 | 2,681,515 | - | - | 2,681,515 | 2020 |
| 2016 | 2,700,509 | - | ( 2,700,509 ) | - | |
| | **P 16,439,653** | **P -** | **( P 2,700,509 )** | **P 13,739,144** | |

Certain subsidiaries within the Group did not recognize deferred tax assets in accordance with the relevant accounting standard. The unrecognized deferred tax assets are broken down as follows:

| | **2019** | 2018 |
|---|---|---|
| Allowance for impairment | **P 132,294,356** | P 132,294,356 |
| Retirement benefit obligation | **371,934** | 668,842 |
| NOLCO | **307,785** | 11,745,716 |
| MCIT | **-** | 377,648 |
| | **P 132,974,075** | P 145,086,562 |

Management has assessed that for other entities within the Group, the net losses incurred as well as the related NOLCO, can be recovered through their respective future operations.

The Group opted to continue claiming itemized deductions for the years ended December 31, 2019, 2018 and 2017 in computing for its income tax due.

## 25. RELATED PARTY TRANSACTIONS

The Group's related parties include its ultimate parent company, parent company, associates, related parties under common ownership, the Company's key management personnel and others as described below.

### *25.1 Summary of Related Party Transactions*

The summary of the Group's transactions with its related parties for the years ended December 31, 2019, 2018 and 2017, and the related outstanding balances as at December 31, 2019 and 2018 is as follows:

| **Related Party Category** | Notes | **Amount of Transactions** | | | **Outstanding Balances** | |
|---|---|---|---|---|---|---|
| | | **2019** | 2018 | 2017 | **2019** | 2018 |
| **Parent company:** | | | | | | |
| Availment of advances – net of interest and repayments | 25.4 | **(P 14,516,888)** | (P 232,598,725) | (P 421,785,909) | **(P 771,756,483)** | (P 757,239,595) |
| Lease of office spaces | 25.2 | **( 138,478,275)** | 67,545,144 | 40,792,631 | **( 138,478,275)** | - |
| Commission expense | 25.5 | **21,500,974** | 21,051,434 | 31,477,557 | **-** | - |
| Services | 25.6 | **8,571,429** | 8,571,429 | 8,571,429 | **-** | - |
| **Associates:** | | | | | | |
| Granting of cash advances – net of collections and reclass | 25.3 | **( 35,899,045)** | ( 128,561,143) | ( 28,785,461) | **18,004,237** | 53,903,282 |
| Lease of office spaces | 25.2 | **-** | - | - | **-** | 580,028 |
| **Other investees of shareholders:** | | | | | | |
| Granting of cash advances – net of collections | 25.3 | **148,320,873** | ( 126,550,886) | 41,713,191 | **859,653,587** | 711,332,714 |
| Availment of advances – net of repayments | 25.4 | **( 14,815,498)** | ( 170,261,053) | 7,563,419 | **( 229,839,745)** | ( 244,655,243) |
| Lease of office spaces | 25.2 | **6,742,495** | 123,418 | 617,090 | **-** | 123,418 |
| **Key Management Personnel –** | | | | | | |
| Compensation | 25.7 | **31,158,167** | 31,690,111 | 36,384,197 | **-** | - |

Based on management's assessment, certain advances to related parties were impaired as of December 31, 2019 and 2018 as discussed in Notes 25.3 and 29.2(c).

### *25.2 Lease of Office Spaces*

*(a) Group as a Lessor*

The Company leases portions of its investment property to certain related parties with rental payments mutually agreed before commencement of the lease. The leases have terms ranging from one to three years, with renewal options, and include annual escalation rate of 5%. The revenues earned from these related parties are included as part of Rental Income account under Revenues and Income section in the consolidated statements of comprehensive income (see Note 11). The related outstanding receivables from these transactions are presented as part of Others under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The related receivables from these transactions are short-term, unsecured, noninterest-bearing and are generally settled in cash upon demand.

*(b) Company as a Lessee*

In 2012, the Company entered into several operating lease agreements as a lessee with Megaworld, covering showrooms for advertising and promotional use. The leases have terms ranging from one to five years with renewal options, and include annual escalation rates of 5% to 10%. Rental expense incurred in relation to these leases is presented as part of Rental under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 21). There was no outstanding balance from this transaction as of December 31, 2019 and 2018.

In 2016, the Company entered into a lease agreement as lessee with Megaworld for the new space where the Company transferred its office in 2017. On January 1, 2019, in connection with the adoption of PFRS 16, the Company recognized right-of-use asset and lease liability amounting to P195.6 million and P182.8 million, respectively. The corresponding amortization of the right-of-use asset amounted to P57.3 million and is presented as part of Depreciation and amortization under Other Operating Expenses in the 2019 consolidated statement of comprehensive income (see Note 21). Interest incurred on lease liability amounted to P10.9 million and is presented as part of Finance costs under Finance Costs and Other Charges in the 2019 consolidated statement of comprehensive income (see Note 20.2). As of December 31, 2019, the carrying amounts of the right-of-use asset and lease liability amounted to P138.3 million and P138.5 million, respectively. As of December 31, 2018, the Company's prepayments and deposits amounting to P42.9 million are included as part of Prepayments under the Prepayments and Other Current Assets account in the 2018 consolidated statement of financial position (see Note 8).

Total rent expense recognized amounted to P67.5 million and P40.7 million in 2018 and 2017, respectively, and is presented as part of Rental under Other Operating Expenses account in the consolidated statement of comprehensive income (see Note 21).

### *25.3 Advances to Related Parties*

The Group grants advances to its associates and other related parties for working capital purposes. These advances to related parties are unsecured, noninterest-bearing and repayable in cash upon demand. The balances of these advances, shown as Advances to Related Parties account in the consolidated statements of financial position as at December 31, are presented in the succeeding page.

| | 2019 | 2018 |
|---|---|---|
| Associates | **P 18,004,237** | P 53,903,282 |
| Other investee companies of shareholders | **859,653,587** | 711,332,714 |
| | **P 877,657,824** | P 765,235,996 |

A summary of transactions with these related parties are as follows:

| | Amount of Transactions | | |
|---|---|---|---|
| | **2019** | 2018 | 2017 |
| Associates: | | | |
| Balance at beginning of year | **P 53,903,282** | P 182,464,425 | P 211,249,886 |
| Effect of application of PFRS 9 | **-** | ( 11,135,011) | - |
| As restated | **53,903,282** | 171,329,414 | 211,249,886 |
| Collections | **( 37,445,369)** | ( 125,902,066) | ( 28,834,702) |
| Cash advances granted | **1,546,324** | 12,325,247 | 49,241 |
| Impairment | - | ( 3,849,313) | - |
| Balance at end of year | **P 18,004,237** | P 53,903,282 | P 182,464,425 |
| Other investee companies of shareholders: | | | |
| Balance at beginning of year | **P 711,332,714** | P 837,883,600 | P 796,170,409 |
| Cash advances granted | **302,948,613** | 141,462,681 | 128,915,926 |
| Impairment | **( 88,435,282)** | - | - |
| Collections | **( 66,192,458)** | ( 268,013,567) | ( 87,202,735) |
| Balance at end of year | **P 859,653,587** | P 711,332,714 | P 837,883,600 |

The Group also has short-term, unsecured and noninterest-bearing outstanding advances to officers and employees amounting to P242.1 million and P224.0 million as of December 31, 2019 and 2018, respectively, which are presented as Advances to officers and employees under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6). These are settled through salary deduction or liquidation.

As at December 31, 2019 and 2018, management assessed that certain advances to related parties amounting to P88.4 million and P3.8 million, respectively, are not recoverable [see Note 29.2 (c)].

### *25.4 Advances from Related Parties*

The Group obtains advances from its parent company and other related parties for working capital purposes. These advances are unsecured and are repayable in cash upon demand. Also, except for the advances from Megaworld, these advances are noninterest-bearing.

The balances of these advances, shown as Advances from Related Parties account in the consolidated statements of financial position as at the end of the reporting periods, are presented in the succeeding page.

| | 2019 | 2018 |
|---|---|---|
| Parent company | **P 771,756,483** | P 757,239,595 |
| Other investee companies of shareholders | **229,839,745** | 244,655,243 |
| | **P1,001,596,228** | P1,001,894,838 |

A summary of transactions with these related parties are as follows:

| | Amount of Transactions | | |
|---|---|---|---|
| | **2019** | 2018 | 2017 |
| Parent company: | | | |
| Balance at beginning of year | **P 757,239,595** | P 524,640,870 | P 102,854,961 |
| Cash advances obtained | **6,428,556** | 274,246,676 | 410,802,780 |
| Repayments | **-** | 49,266,395 | - |
| Interest expense | **8,088,332** | 7,618,444 | 10,983,129 |
| Balance at end of year | **P 771,756,483** | P 757,239,595 | P 524,640,870 |
| Other investee companies of shareholders: | | | |
| Balance at beginning of year | **P 244,655,243** | P 414,916,296 | P 422,479,715 |
| Repayments | **( 103,187,691)** | ( 291,022,777) | ( 12,989,000) |
| Cash advances obtained | **88,372,193** | 120,761,724 | 5,425,581 |
| Balance at end of year | **P 229,839,745** | P 244,655,243 | P 414,916,296 |

The advances from Megaworld bear annual interest of 6.0%. The interest expense incurred in 2019, 2018 and 2017 are presented as part of Finance costs under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 20.2).

The related unpaid interest of the advances from Megaworld amounting to P47.6 million and P39.4 million as at December 31, 2019 and 2018, respectively, is included as part of the Advances from Related Parties account in the consolidated statements of financial position.

### *25.5 Commissions*

In the normal course of business, the Group pays commissions to Megaworld for marketing services rendered by the latter with the purpose of increasing sales from its on-going projects. The commissions are based on pre-agreed rates and are payable once a certain percentage of the contract price has been collected. Commissions incurred in 2019, 2018 and 2017 are presented as part of Commissions under Other Operating Expenses in the consolidated statements of comprehensive income (see Note 21). There was no outstanding balance from this transaction as of December 31, 2019 and 2018.

### *25.6 Services*

The Company obtains services from parent company for a fixed consideration. The amount of expenses incurred from such transaction is recorded as part of Miscellaneous under Other Operating Expenses account in the 2019, 2018 and 2017 consolidated statements of comprehensive income (see Note 21). There was no outstanding balance from this transaction as of December 31, 2019 and 2018.

### *25.7 Key Management Personnel Compensation*

The Group's key management personnel compensation includes the following:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Short-term benefits | | **P 24,722,959** | P 23,613,997 | P 21,297,376 |
| Share-based employee compensation | 26.2 | **892,953** | 3,307,158 | 10,039,313 |
| Post-employment defined benefit | | **5,542,255** | 4,768,956 | 5,047,508 |
| | | **P 31,158,167** | P 31,690,111 | P 36,384,197 |

## 26. EQUITY AND REDEEMABLE PREFERENCE SHARES

### *26.1 Capital Stock*

Capital stock as of December 31, 2019 and 2018 consists of:

| | Shares | Amount |
|---|---|---|
| Common shares – P1 par value | | |
| Authorized | 20,000,000,000 | P 20,000,000,000 |
| Issued and outstanding | | |
| Balance at end of year | 10,986,000,000 | P 10,986,000,000 |

On November 23, 1995, the SEC approved the listing of the Company's common shares totaling 150.0 million. The shares were initially issued at an offer price of P19.50 per common share. As at December 31, 2019 and 2018, there are 4,219 and 4,231 holders of the listed shares, respectively, which closed at P1.20 per share and P1.13 per share, respectively.

The Company also made additional listings of 2.2 billion, 5.0 billion and 2.5 billion shares on January 11, 2007, January 20, 2011 and August 14, 2013, respectively.

### *26.2 Employee Stock Option Plan*

On September 23, 2011, the BOD of the Company approved an Executive Stock Option Plan (the ESOP) for its key executive officers. This was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the ESOP is to enable the key executives and senior officers of the Company, who are largely responsible for its further growth and development, to obtain an ownership interest in the Company, thereby encouraging long-term commitment to the Company. The ESOP is being administered by the Executive Compensation Committee of the BOD.

Under the ESOP, the Company shall initially reserve for exercise of stock options up to 500.0 million common shares of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within 10 years from the adoption of the ESOP and may be exercised within seven years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for twelve months immediately preceding the date of grant. The options shall vest within three years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three-year period. The Company shall receive cash for the stock options.

As of December 31, 2019, pursuant to this ESOP, the Company has granted the option to its key company executives to subscribe to 400.0 million shares of the Company. An option holder may exercise in whole or in part his vested option, provided that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle. A total of 400.0 million and 383.3 million options have vested as at December 31, 2019 and 2018, respectively, but none of these have been exercised yet by any of the option holders as at the end of the reporting periods.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The principal assumptions used in the valuation are shown below.

| | | |
|---|---|---|
| Grant dates | : | February 16, 2012, February 18, 2013 March 7, 2014, March 9, 2015, July 14, 2016 |
| Vesting period ends | : | February 15, 2015, February 17, 2016. March 6, 2017, February 16, 2018 July 13, 2019 |
| Option life | : | Seven years |
| Share price at grant dates | : | P2.10, P2.09, P1.60, P1.63, P1.02 |
| Exercise price at grant dates | : | P1.93, P1.69, P1.50, P1.65, P1.00 |
| Average fair value at grant dates | : | P2.27, P0.74, P0.42, P0.34, P0.24 |
| Average standard deviation of share price returns | : | 57.10%, 20.85%, 16.16%, 12.16%, 15.29% |
| Average risk-free investment rates | : | 2.46%, 2.14%, 2.46%, 2.51%, 2.59% |

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time consistent with the option life.

A total of P0.9 million, P3.3 million and P10.0 million share-based employee compensation is recognized for the years ended December 31, 2019, 2018 and 2017 respectively, and is included as part of Salaries and employee benefits under Other Operating Expenses in the consolidated statements of comprehensive income (see Notes 21 and 23.1), and is credited to Retained Earnings in the equity section of the consolidated statements of financial position.

### *26.3 Redeemable Preferred Shares*

On September 4, 2012, TLC's BOD approved the additional subscriptions to 1,258.0 million preferred shares out of TLC's authorized capital stock as partial payment for certain parcels of land with total fair value of P1,338.2 million. The SEC approved the issuance through exchange of certain parcels of land on April 17, 2013.

Generally non-voting, these preferred shares earn dividends at a fixed annual rate of 2.3% subject to the existence of TLC's unrestricted retained earnings. The accrued interest on these preferred shares amounting to P1.4 million and P1.9 million as at December 31, 2019 and 2018, respectively, is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16). The related interest expense recognized amounting to P22.7 million, P28.4 million, P28.9 million in 2019, 2018 and 2017, respectively, and is presented as part of Finance costs under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 20.2).

The preferred shares have a maturity of 10 years and shall be redeemed on every anniversary date beginning on the sixth anniversary date until expiration of the ten-year period. Only 1/5 of the aggregate face value of preferred shares may be redeemed per year during such redemption period, with all remaining shares to be redeemed on the 10th anniversary date. The sixth anniversary date was on December 3, 2018. Accordingly, 1/5 of the aggregate face value amounting to P251.6 million has been redeemed both in 2019 and 2018.

Based on PAS 32, *Financial Instruments – Presentation*, the preferred shares are considered as financial liabilities due to fixed redemption date and mandatory dividends to the holders. Accordingly, the redeemable preferred shares are recognized at fair value on the date of issuance. The fair values of the redeemable preferred shares on the date of issuance approximate their par value.

## 27. EARNINGS PER SHARE

Earnings per share amounts were computed as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Basic: | | | |
| Net profit attributable to Company's shareholders | **P 1,489,054,664** | P 1,495,316,796 | P 1,453,107,596 |
| Divided by weighted number of outstanding common shares | **10,986,000,000** | 10,986,000,000 | 10,986,000,000 |
| | **P 0.136** | P 0.136 | P 0.132 |
| Diluted: | | | |
| Net profit attributable to Company's shareholders | **P 1,489,054,664** | P 1,495,316,796 | P 1,453,107,596 |
| Divided by weighted number of outstanding common shares | **11,376,972,222** | 11,357,527,777 | 11,318,638,888 |
| | **P 0.131** | P 0.132 | P 0.128 |

In relation to the approved ESOP for key executive officers, the vested options exercisable by any of the option holders are considered as potentially dilutive shares as at the end of the reporting periods.

## 28. COMMITMENTS AND CONTINGENCIES

### *28.1 Lease Commitments – Group as Lessor*

The Group is a lessor under several operating leases covering real estate properties for commercial use (see Note 11). The leases have terms ranging from 1 to 25 years, with renewal options, and include annual escalation rates of 3% to 10%. The average annual rental covering these agreements amounts to P661.5 million.

Future minimum lease payments receivable under these agreements are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Within one year | **P 672,430,216** | P 643,955,467 | P 325,857,821 |
| After one year but not more than two years | **621,639,804** | 643,646,838 | 320,493,835 |
| After two years but not more than three years | **606,568,060** | 637,171,646 | 312,496,578 |
| After three years but more than four years | **596,909,653** | 608,653,363 | 309,033,508 |
| After four years but not more than five years | **373,679,947** | 667,254,200 | 309,240,293 |
| More than five years | **1,760,600,412** | 1,912,531,731 | 1,939,533,936 |
| | **P 4,631,828,092** | P 5,113,213,245 | P 3,516,655,971 |

The undiscounted maturity analysis of finance lease receivable at December 31, 2019 is as follows:

| | **Within 1 year** | **1 to 2 years** | **2 to 3 years** | **3 to 4 years** | **4 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|---|
| Lease collection | P 90,472,736 | P 87,459,667 | P 88,070,235 | P 88,699,119 | P 89,346,871 | P795,445,702 | P1,239,494,330 |
| Interest income | ( 3,685,787) | ( 42,130,827 ) | ( 38,419,380 ) | ( 34,355,507) | ( 29,909,018) | ( 418,237,382) | ( 566,737,901 ) |
| Net present value | **P 86,786,949** | **P 45,328,840** | **P 49,650,855** | **P 54,343,612** | **P 59,437,853** | **P377,208,320** | **P 672,756,429** |

### *28.2 Operating Lease Commitments – Group as Lessee (2018 and 2017)*

The Group is a lessee under several operating leases covering office spaces and condominium units for administrative use. The leases have terms ranging from one to five years with renewal options, and include a 3% to 10% annual escalation rate. The average annual rental covering these agreements amounts to P115.8 million. The future minimum rental payables under these non-cancelable leases as of the end of the reporting periods are presented below.

| | 2018 | 2017 |
|---|---|---|
| Within one year | P 139,452,045 | P 154,621,942 |
| After one year but not more the five years | 396,788,893 | 475,583,273 |
| More than five years | 777,489,228 | 807,849,310 |
| | P 1,313,730,166 | P 1,438,054,525 |

### *28.3 Others*

There are other commitments and contingent liabilities that may arise in the normal course of the Group's operations that are not reflected in the consolidated financial statements. As of the end of the reporting period, management is of the opinion that losses, if any, from these items will not have a material effect on the Group's consolidated financial statements.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 30.1. The main types of risks are market risk, credit risk and liquidity risk.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

### *29.1 Market Risk*

*(a) Foreign Currency Risk*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise mainly from the Group's United States (U.S.) dollar-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets, translated into Philippine pesos at the closing rates at end of 2019 and 2018, pertain to cash and cash equivalents amounting to P157.7 million and P118.9 million, respectively. The Group has no U.S. dollar denominated financial liabilities in 2019 and 2018.

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have decreased by P15.0 million and P13.2 million in 2019 and 2018, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have increased profit before tax in 2019 and 2018 by the same amount. This sensitivity of the net result for the year assumes a +/- 9.5% and +/- 11.1% change of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2019 and 2018, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months for 2019 and 2018 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

*(b) Interest Rate Risk*

At December 31, 2019 and 2018, the Group is exposed to changes in market interest rates through its cash and cash equivalents and long-term interest-bearing loans, which are subject to variable interest rates (see Notes 5 and 15). All other financial assets and liabilities have fixed rates.

The sensitivity of the Group's profit before tax is analyzed based on reasonably possible change for the year to a reasonably possible change in interest rates of +/- 3.72% and +/- 1.38% in 2019 and 2018, respectively . These changes are considered to be reasonably possible based on observation of current market conditions. The percentage changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months at a 99% confidence level. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from beginning of the year. All other variables held constant, if the interest rate increased by 3.72% and 1.38% in 2019 and 2018, profit before tax would have decreased by P4.6 million and P31.5 million in 2019 and 2018, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax in 2019 and 2018 would have been higher by the same amount.

### *29.2 Credit Risk*

Credit risk is the risk when a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, arising from granting loans and receivables to customers and related parties and by placing deposits.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at reasonable cost, external ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The maximum credit risk exposure of financial assets and contract assets is the carrying amount of the related assets as shown in the consolidated statements of financial position, as summarized below.

| | Notes | **2019** | 2018 |
|---|---|---|---|
| Cash and cash equivalents | 5 | **P 2,621,473,415** | P 1,771,302,129 |
| Trade receivables – net | 6 | **6,955,995,640** | 4,168,285,929 |
| Finance lease receivable | 6 | **672,756,429** | - |
| Rent receivables | 6 | **360,988,536** | 256,630,832 |
| Other receivables | 6 | **249,161,476** | 235,628,196 |
| Contract assets | 19.2 | **1,542,549,924** | 3,530,180,685 |
| Advances to real estate property owners | 9 | **1,280,685,030** | 1,239,926,842 |
| Advances to related parties | 25.3 | **877,657,824** | 765,235,996 |
| Refundable deposits | 14 | **122,749,105** | 118,009,922 |
| | | **P14,684,017,379** | P12,085,200,531 |

*(a) Cash and Cash Equivalents*

The credit risk for cash is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

As part of Group policy, bank deposits are only maintained with reputable financial institutions. Cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million per depositor per banking institution, as provided for under R.A. No. 9576, *Amendment to Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

The Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance for impairment will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's to determine whether the debt instrument has significantly increased in credit risk and to estimate ECL.

As of December 31, 2019 and 2018, impairment allowance is not material.

*(b)* *Trade and Other Receivables and Contract Assets*

Credit risk of receivables and contract assets from sale of real estate properties is managed primarily through credit reviews and analyses of receivables on a regular basis. The Group undertakes credit review procedures for all installment payment terms. Customer payments are facilitated through the use of post dated checks. Exposure to doubtful accounts is not substantial as title to real estate properties are not transferred to the buyers until full payment of the amortization has been made and the requirement for remedial procedures is negligible considering the Group's buyers' profile.

The Group has used the simplified approach in measuring ECL and has calculated ECL based on lifetime ECL. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking information specific to the buyers and the economic environment.

The Group considers trade receivables in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to beyond 90 days. Furthermore, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The provision rate is based on days past due of all customers as they have similar loss patterns. The credit enhancements such as advance payment and value of the real estate for sale are considered in the calculation of impairment as recoveries.

The management determined that there is no required ECL to be recognized since the real estate sold is collateralized to the related receivable arising from sale. Therefore, there is no expected loss given default as the recoverable amount from subsequent resale of the real estate is sufficient.

Other components of receivables such as rental receivables are also evaluated by the Group for impairment and assessed that no ECL should be provided. Rental receivables are secured to the extent of advance rental and rental deposit received from the lessees, which are in average equivalent to six months.

The estimated fair value of collateral and other security enhancements held against installment contract receivables, contract assets and rent receivables are presented below.

| | Gross Maximum Exposure | Fair Value of Collaterals | Net Exposure |
|---|---|---|---|
| **2019** | | | |
| Installment contract Receivables – net | P 6,549,685,115 | P 12,355,751,798 | P - |
| Contract assets | 1,542,549,924 | 2,000,193,675 | - |
| Rent receivables | 360,988,536 | 375,841,465 | - |
| | **P 8,453,223,575** | **P 14,731,786,938** | **P -** |
| 2018 | | | |
| Installment contract Receivables – net | P 3,927,547,924 | P 4,795,598,837 | P - |
| Contract assets | 3,530,180,685 | 7,382,098,646 | - |
| Rent receivables | 256,630,832 | 400,798,839 | - |
| | P 7,714,359,441 | P 12,578,496,322 | P - |

Some of the unimpaired trade and other receivables, which are mostly related to real estate sales, are past due as at the end of the reporting period and are presented below.

| | **2019** | 2018 |
|---|---|---|
| Current (not past due) | **P7,457,758,796** | P4,275,630,510 |
| Past due but not impaired: | | |
| More than one month but not more than 3 months | **446,641,555** | 178,011,283 |
| More than 3 months but not more than 6 months | **127,868,340** | 105,843,782 |
| More than 6 months but not more than one year | **136,070,857** | 60,401,658 |
| More than one year | **70,562,533** | 40,657,724 |
| | **P8,238,902,081** | P4,660,544,957 |

(c) *Advances to Related Parties and Advances to Real Estate Property Owners*

ECL for advances to related parties are measured and recognized using the liquidity approach. Management determines possible impairment based on the related party's ability to repay the advances upon demand at the reporting date taking into consideration the historical defaults from the counterparties. Management assessed that the outstanding receivables from certain related parties as of December 31, 2019 and 2018 are not recoverable since these related parties have no capacity to pay the advances upon demand. Accordingly, impairment losses amounting to P88.4 million and P3.8 million are recognized in 2019 and 2018, respectively, and are presented as part of Miscellaneous under Other Operating Expenses account in the 2019 and 2018 consolidated statement of comprehensive income (see Note 25.3).

The Group does not consider any significant risks in the remaining advances to related parties since Megaworld and other related parties, whose credit risks for liquid funds are considered negligible, have committed to financially support these related parties as part of AGI's long-term corporate strategy.

In addition, there is also no significant risks in the advances to real estate property owners as these are advances to joint venturers in the Group's certain real estate projects which are set-off against the joint venturers' share in the collections of receivables pertaining to such projects. As of December 31, 2019 and 2018, impairment allowance is not material.

### *29.3 Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week, as well as on the basis of a rolling 30-day projection. Long-term needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of end of the reporting periods, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | | Non-current | |
|---|---|---|---|---|
| | Within 6 Months | 6 to 12 Months | 1 to 5 Years | Later than 5 Years |
| **December 31, 2019** | | | | |
| Interest-bearing loans | P 872,793,476 | P 940,216,439 | P 3,762,255,839 | P - |
| Trade and other payables | 1,559,669,388 | 1,895,622,682 | - | - |
| Advances from related parties | 1,001,596,228 | - | - | - |
| Due to joint venture partners | - | - | 356,227,254 | - |
| Redeemable preferred shares | - | 263,171,069 | 508,981,904 | - |
| Accrued dividends on preferred shares | - | 2,589,041 | - | - |
| Lease liabilities | 50,612,692 | 50,612,692 | 201,631,612 | 777,489,228 |
| Retention payable | - | 313,936,806 | - | 579,795,840 |
| | P 3,484,671,784 | P 3,466,148,729 | P 4,829,096,609 | P 1,357,285,068 |
| **December 31, 2018** | | | | |
| Interest-bearing loans | P 905,840,531 | P 928,549,361 | P 2,738,365,703 | P - |
| Trade and other payables | 1,402,295,584 | 1,552,493,002 | - | - |
| Advances from related parties | 1,001,894,838 | - | - | - |
| Due to joint venture partners | - | - | 395,424,643 | - |
| Redeemable preferred shares | - | 268,957,813 | 772,152,973 | - |
| Accrued dividends on preferred shares | - | 1,872,369 | - | - |
| Retention payable | - | 40,383,531 | - | 820,919,633 |
| | P 3,310,030,953 | P 2,792,256,076 | P 3,905,943,319 | P 820,919,633 |

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting dates.

## 30. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *30.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities*

The carrying amounts and fair values of the categories of financial assets presented in the consolidated statements of financial position are shown below.

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | Notes | Carrying Values | Fair Values | Carrying Values | Fair Values |
| ***Financial assets*** | | | | | |
| At amortized cost: | | | | | |
| Cash and cash equivalents | 5 | **P 2,621,473,415** | **P 2,621,473,415** | P 1,771,302,129 | P 1,771,302,129 |
| Trade and other receivables – net | 6 | **8,238,902,081** | **8,541,889,032** | 4,660,544,957 | 4,718,346,302 |
| Advances to real estate property owners | 9 | **1,280,685,030** | **1,309,711,080** | 1,239,926,842 | 1,269,928,988 |
| Advances to related parties | 25.3 | **877,657,824** | **877,657,824** | 765,235,996 | 765,235,996 |
| Refundable deposits | 14 | **122,749,105** | **122,749,105** | 118,009,922 | 118,009,922 |
| | | **P 13,141,467,455** | **P 13,473,480,456** | P 8,555,019,846 | P 8,642,823,337 |
| ***Financial liabilities*** | | | | | |
| At amortized cost: | | | | | |
| Interest-bearing loan | 15 | **P 5,024,305,898** | **P 4,957,680,265** | P 4,060,772,360 | P 3,988,865,408 |
| Trade and other payables | 16 | **3,455,292,070** | **3,455,292,070** | 2,954,788,586 | 2,954,788,586 |
| Advances from related parties | 25.4 | **1,001,596,228** | **1,001,596,228** | 1,001,894,838 | 1,001,894,838 |
| Due to joint venture partners | 17 | **356,227,254** | **356,227,254** | 395,424,643 | 395,424,643 |
| Retention payable | 16, 18 | **893,732,646** | **893,732,646** | 861,303,164 | 861,303,164 |
| Redeemable preferred shares | 26.3 | **754,792,740** | **720,072,274** | 1,006,390,320 | 877,096,033 |
| Accrued dividends on preferred shares | 16 | **2,589,041** | **2,589,041** | 1,872,369 | 1,872,369 |
| Lease liabilities | 13 | **494,291,683** | **494,291,683** | - | - |
| | | **P11,982,827,560** | **P 11,881,481,461** | P10,282,446,280 | P 10,081,245,041 |

See Notes 2.4 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 29.

### *30.2 Offsetting of Financial Assets and Financial Liabilities*

The Group has not set-off financial instruments in 2019 and 2018 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and stockholders or upon instruction by the Group. As such, the Group's outstanding advances to related parties amounting to P877.7 million and P765.2 million can be offset by the amount of outstanding advances from related parties amounting to P1,001.6 million and P1,001.9 million as at December 31, 2019 and 2018, respectively (see Note 25).

The Group has cash in certain local banks to which it has outstanding loans (see Note 14). In case of the Group's default on loan amortization, cash in bank amounting to P992.5 million and P774.5 million can be applied against its outstanding loans amounting to P5,024.3 million and P4,060.7 million as of December 31, 2019 and 2018, respectively (see Note 15).

## 31. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *31.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *31.2 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below and in the succeeding page summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the 2019 and 2018 consolidated statements of financial position but for which fair value is disclosed.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2019:** | | | | |
| ***Financial Assets:*** | | | | |
| Cash and cash equivalents | P2,621,473,415 | P - | P - | P 2,621,473,415 |
| Trade and other receivables – net | - | - | 8,541,889,032 | 8,541,889,032 |
| Advances to real estate property owners | - | - | 1,309,711,080 | 1,309,711,080 |
| Advances to related parties | - | - | 877,657,824 | 877,657,824 |
| Refundable deposits | - | - | 122,749,105 | 122,749,105 |
| | **P2,621,473,415** | **P -** | **P10,852,007,041** | **P13,473,480,456** |
| ***Financial Liabilities:*** | | | | |
| Interest-bearing loans | P - | P - | P 4,957,680,265 | P 4,957,680,265 |
| Trade and other payables | - | - | 3,455,292,070 | 3,455,292,070 |
| Advances from related parties | - | - | 1,001,596,228 | 1,001,596,228 |
| Due to joint venture partners | - | - | 356,227,254 | 356,227,254 |
| Retention payable | - | - | 893,732,646 | 893,732,646 |
| Redeemable preferred shares | - | - | 720,072,274 | 720,072,274 |
| Accrued dividends on preferred shares | - | - | 2,589,041 | 2,589,041 |
| Lease liabilities | - | - | 494,291,683 | 494,291,683 |
| | **P -** | **P -** | **P 11,881,481,461** | **P 11,881,481,461** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 2018: | | | | |
| *Financial Assets:* | | | | |
| Cash and cash equivalents | P1,771,302,129 | P - | P - | P 1,771,302,129 |
| Trade and other receivables – net | - | - | 4,718,346,302 | 4,718,346,302 |
| Advances to real estate property owners | - | - | 1,269,928,988 | 1,269,928,988 |
| Advances to related parties | - | - | 765,235,996 | 765,235,996 |
| Refundable deposits | - | - | 118,009,922 | 118,009,922 |
| | P1,771,302,129 | P - | P 6,871,521,208 | P 8,642,823,337 |
| *Financial Liabilities:* | | | | |
| Interest-bearing loans | P - | P - | P 3,988,865,408 | P 3,988,865,408 |
| Trade and other payables | - | - | 2,954,788,586 | 2,954,788,586 |
| Advances from related parties | - | - | 1,001,894,838 | 1,001,894,838 |
| Due to joint venture partners | - | - | 395,424,643 | 395,424,643 |
| Retention payable | - | - | 861,303,164 | 861,303,164 |
| Redeemable preferred shares | - | - | 877,096,033 | 877,096,033 |
| Accrued dividends on preferred shares | - | - | 1,872,369 | 1,872,369 |
| | P - | P - | P10,081,245,041 | P10,081,245,041 |

For financial assets with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values due to their short-term duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market is determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data. For those with short term duration, the carrying amount approximates the fair value.

### *31.3 Investment Property Measured at Cost for Which Fair Value is Disclosed*

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's investment property is its current use.

The fair value of the investment property was determined based on the following approaches:

*(i) Fair Value Measurement for Land and Land Development and Improvements*

The Level 3 fair value of land and land developments and improvements was derived through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property.

*(ii) Fair Value Measurement for Building and Improvements*

The fair value of the Group's building and improvements, which are classified under Level 3 of the fair value hierarchy, is determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate applicable to these assets.

*(iii) Fair Value Measurement of Construction in Progress*

The Level 3 fair value of the construction in progress was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated cost used in the valuation will result in higher fair value of the properties.

Also, there were no transfers into or out of Level 3 fair value hierarchy in 2019.

## 32. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Group also monitors its debt coverage ratio (DCR) in each of the reporting periods. As at December 31, 2019 and 2018, the Group's DCR is 1.79:1.00 and 1.60:1.00, respectively.

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

| | **2019** | 2018 |
|---|---|---|
| Total liabilities | **P 16,519,140,460** | P 14,870,123,288 |
| Total equity | **33,248,598,573** | 31,159,907,878 |
| Debt-to-equity ratio | **0.50 :1.00** | 0.48 : 1.00 |

## 33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation of liabilities arising from financing activities in 2019 and 2018 is presented below. The details of net cash flows are presented in the consolidated statements of cash flows.

| | Interest-bearing Loans (See Note 15) | Advances from Related Parties (See Note 25) | Lease Liabilities (See Note 13) | Total |
|---|---|---|---|---|
| Balance as of January 1, 2019 | P 4,060,772,360 | P 1,001,894,838 | P - | P 5,062,667,198 |
| Adoption of PFRS 16 [see Note 2.2(a)] | - | - | 610,257,526 | 610,257,526 |
| Cash flows from financing activities: | | | | |
| Additional borrowings | 2,500,000,000 | 94,800,749 | - | 2,594,800,749 |
| Repayments of borrowings | ( 1,536,466,462 ) | ( 103,187,691 ) | ( 115,965,843 ) | ( 1,755,619,996) |
| Interest paid | - | - | ( 35,937,092 ) | ( 35,937,092) |
| Non-cash financing activities – | | | | |
| Interest expense | - | 8,088,332 | - | 8,088,332 |
| Interest amortization on lease liabilities | - | - | 35,937,092 | 35,937,092 |
| Balance as of December 31, 2019 | **P 5,024,305,898** | **P 1,001,596,228** | **P 494,291,683** | **P 6,520,193,809** |
| Balance as of January 1, 2018 | P 5,055,929,487 | P 939,557,166 | P - | P 5,995,486,653 |
| Cash flows from financing activities: | | | | |
| Additional borrowings | 50,000,000 | 395,008,400 | - | 445,008,400 |
| Repayments of borrowings | ( 1,045,157,127 ) | ( 340,289,172 ) | - | ( 1,385,446,299) |
| Non-cash financing activities – | | | | |
| Interest expense | - | 7,618,444 | - | 7,618,444 |
| Balance as of December 31, 2018 | P 4,060,772,360 | P 1,001,894,838 | P - | P 5,062,667,198 |
| Balance as of January 1, 2017 | P 3,927,083,333 | P 525,334,676 | P - | P 4,452,418,009 |
| Cash flows from financing activities: | | | | |
| Additional borrowings | 2,000,000,000 | 416,228,361 | - | 2,416,228,361 |
| Repayments of borrowings | ( 871,153,846 ) | ( 12,989,000 ) | - | ( 884,142,846) |
| Non-cash financing activities – | | | | |
| Interest expense | - | 10,983,129 | - | 10,983,129 |
| Balance as of December 31, 2017 | P 5,055,929,487 | P 939,557,166 | P - | P 5,995,486,653 |

## 34. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGED COMMISSION

RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code) took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no impact to the Group's consolidated financial statements.

## 35. EVENT AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group and other businesses have been significantly exposed to the risks brought about by the outbreak of the new coronavirus disease, COVID-19. Governmental efforts being implemented to control the spread of the virus include travel bans, quarantines, social distancing and suspension of non-essential services. The management of the Group is carefully reviewing all rules, regulations, and orders and responding accordingly.

Though the disruption is currently expected to be temporary, the Group anticipates that these will have an adverse impact on economic and market conditions and affect various segments of its business. Work stoppage on construction sites and slowdown on the supply chain may potentially lead to delays on the targeted completion and turnover of projects. Community quarantine also requires temporary adjustment of mall operating hours and will reduce foot traffic. Likewise, travel restrictions will affect hotel occupancies.

While management currently believes that it has adequate liquidity and business plans to continue to operate the business and mitigate the risks associated with COVID-19, the ultimate impact of the pandemic is highly uncertain and subject to change. The severity of these consequences will depend on certain developments, including the duration and spread of the outbreak, valuation of assets, and impact on the Group's customers, suppliers, and employees. Specifically, demand for the Group's real estate properties for sale may be affected due to reduced liquidity of potential customers and slowdown of construction progress. Leasing operations shall likewise be affected due to limited operating hours and tenants' liquidity. Further, collection of outstanding receivables may be affected due to reduced liquidity of current customers and moratoriums on payment of rentals. Financial consequences of aforementioned impact are uncertain and cannot be predicted as of the date of the issuance of the Group's consolidated financial statements. Accordingly, management is not able to reliably estimate the impact of the outbreak on the Group's financial position and results of operation for future periods.

The Group would continue to conduct its business while placing paramount consideration on the health and welfare of its employees, customers, and other stakeholders. The Group has implemented measures to mitigate the transmission of COVID-19, such as by adjusting operating hours, making hand sanitizers available within its properties, increasing the frequency of disinfection of facilities, limiting face-to-face meetings, requiring temperature checks for employees and customers, and implementing health protocols for employees. The Group has also activated business continuity plans, both at the corporate level and business operations level, and conducted scenario planning and analysis to activate contingency plans.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, their impact was not reflected in the Group's financial statements as of and for the year ended December 31, 2019.

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# Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Consolidated Financial Statements

**Punongbayan & Araullo**
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 22 88

**The Board of Directors and Stockholders**
**Global-Estate Resorts, Inc. and Subsidiaries**
***(A Subsidiary of Megaworld Corporation)***
16th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Global-Estate Resorts, Inc. and subsidiaries (the Group) for the year ended December 31, 2019, on which we have rendered our report dated April 3, 2020. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68 and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

**By: Renan A. Piamonte**
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 8116553, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 107805-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-037-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 3, 2020

P&A Grant Thornton
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# Report of Independent Auditors on Components of Financial Soundness Indicators

**Punongbayan & Araullo**
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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**The Board of Directors and Stockholders**
**Global-Estate Resorts, Inc. and Subsidiaries**
***(A Subsidiary of Megaworld Corporation)***
16th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Global Estate Resorts, Inc. and Subsidiaries (the Group) for the years ended December 31, 2019 and 2018, on which we have rendered our report dated April 3, 2020. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for the years then ended and no material exceptions were noted.

**PUNONGBAYAN & ARAULLO**

**By: Renan A. Piamonte**
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 8116553, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 107805-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-037-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 3, 2020

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**
**December 31, 2019**

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**

***(A Subsidiary of Megaworld Corporation)***

**SCHEDULE B. - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

**December 31, 2019**

***(Amounts in Philippine Pesos)***

| Name and Designation of Debtor | Balance at Beginning of Year | Additions | Deductions | | Ending Balance | | Balance at End of Year |
|---|---|---|---|---|---|---|---|
| | | | Amounts Collected | Amounts Written-off | Current | Not Current | |
| ***Amounts Due from Related Parties*** | | | | | | | |
| FERC | P 1,365,036 | P 2,141,360 | P - | P 1,365,036 | P 2,141,360 | P - | P 2,141,360 |
| FERSAI | 7,518,690 | - | - | 7,518,689 | 1 | - | 1 |
| BNHGI | 32,743,530 | 111,376 | 29,713,159 | - | 3,141,747 | - | 3,141,747 |
| NPI | 11,951,130 | 770,000 | | | 12,721,130 | - | 12,721,130 |
| MEG | 324,897 | - | 324,897 | - | - | - | - |
| Other related parties | 711,332,713 | 302,948,614 | 154,627,740 | - | 859,653,586 | - | 859,653,586 |
| **TOTAL** | **P 765,235,996** | **P 305,971,350** | **P 184,665,797** | **P 8,883,727** | **P 877,657,824** | **P -** | **P 877,657,824** |
| ***Advances to Officers and Employees*** | | | | | | | |
| Romualdez, Jennifer | P 926,123 | P 10,516 | P - | P - | P 936,639 | P - | P 936,639 |
| Binag Macaraig, Melody | 535,160 | - | 84,854 | - | 450,306 | - | 450,306 |
| Globio, Salvino | 8,341 | 334,824 | - | - | 343,165 | - | 343,165 |
| Haguisan, Hennie | 5,768,331 | - | 29,420 | - | 5,738,910 | - | 5,738,910 |
| Samson. Ma. Rica | 216,337 | - | - | - | 216,337 | - | 216,337 |
| Sanchez, Christopher | 8,947 | - | - | - | 8,947 | - | 8,947 |
| Villanueva, Lanie | 421,107 | - | 161,675 | - | 259,432 | - | 259,432 |
| Bravo, Melissa Anne | 186,793 | - | 70,251 | - | 116,542 | - | 116,542 |
| Lim, Meliza Anne | 139,768 | - | 77,571 | - | 62,197 | - | 62,197 |
| Carbon, Thomas George M. | 66,862 | - | 45,873 | - | 20,989 | - | 20,989 |
| David, Chatt S. | 216,107 | - | 147,906 | - | 68,201 | - | 68,201 |
| Luzung, Fred | 135,791 | - | 74,950 | - | 60,842 | - | 60,842 |
| Mangubat, Felipe | 170,498 | - | 76,554 | - | 93,943 | - | 93,943 |
| Saunar, Kris Norwin | 144,597 | - | 144,597 | - | 0 | - | 0 |
| Lopez, Gervinna | 262,732 | - | 90,438 | - | 172,295 | - | 172,295 |
| Quintana, Allan | 310,147 | - | - | - | 310,147 | - | 310,147 |
| Herrera, Christopher | 359,849 | - | 104,960 | - | 254,889 | - | 254,889 |
| Roxas, Michael | - | 453,869 | - | - | 453,869 | - | 453,869 |
| **TOTAL** | **P 9,877,489** | **P 799,208** | **P 1,109,049** | **P -** | **P 9,567,648** | **P -** | **P 9,567,648** |

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**

***(A Subsidiary of Megaworld Corporation)***

Schedule C - Amounts Receivable from or Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements

December 31, 2019

*(Amounts in Philippine Pesos)*

| Name and Designation of Debtor | Balance at Beginning of Year | Additions | Deductions | | Ending Balance | | Balance at End of Year |
|---|---|---|---|---|---|---|---|
| | | | Amounts Collected | Amounts Written-off | Current | Not Current | |
| **Amounts Receivable from Related Parties Eliminated During Consolidation:** | | | | | | | |
| Fil-Estate Property, Inc. | P 7,867,718,988 | P - | P 318,854,990 | P - | P 7,548,863,998 | P - | P 7,548,863,998 |
| Novo Sierra Holdings Corp. | 353,022 | 45 | - | - | 353,067 | - | 353,067 |
| Fil-Estate Urban Development Corporation | 141,487,380 | 1,241,415 | - | - | 142,728,795 | - | 142,728,795 |
| Oceanfront Properties | 216,574,459 | - | 4,672,307 | - | 211,902,152 | - | 211,902,152 |
| Twin Lakes Corporation | 80,194,487 | 34,100,513 | - | - | 114,295,000 | - | 114,295,000 |
| Southwoods Mall, Inc. | 584,485,558 | - | 190,571,367 | - | 393,914,191 | - | 393,914,191 |
| Megaworld Global Estate Inc. | 4,813,363 | 13,786,256 | - | - | 18,599,619 | - | 18,599,619 |
| Global Homes and Communities Inc. | 106,501,531 | 138 | - | - | 106,501,669 | - | 106,501,669 |
| | | | | | | | - |
| | **P 9,002,128,788** | **P 49,128,367** | **P 514,098,664** | **P -** | **P 8,537,158,491** | **P -** | **P 8,537,158,491** |

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
Schedule E - Long Term Debt
December 31, 2019
*(Amounts in Philippine Pesos)*

| Title of Issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of long-term debt" in related balance sheet | Amount shown under caption "Long-Term Debt" in related balance sheet |
|---|---|---|---|
| Bank loan | P 5,024,305,898 | P 1,555,555,898 | P 3,468,750,000 |

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**
**December 31, 2019**
***(Amounts in Philippine Pesos)***

| Name of Related Party | Balance at Beginning of Year | Balance at End of Period |
|---|---|---|
| Megaworld Corporation | P 757,239,595 | P 771,756,483 |
| Others | 244,655,243 | 229,839,745 |
| **TOTAL** | **P 1,001,894,838** | **P 1,001,596,228** |

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**SCHEDULE H - CAPITAL STOCK**
**December 31, 2019**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding as Shown Under the Related Statement of Condition Caption | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | Number of Shares Held by | | |
|---|---|---|---|---|---|---|
| | | | | Related Parties | Directors, Officers and Employees | Others |
| Common Shares | 20,000,000,000 | 10,986,000,000 | - | 9,043,850,659 | 2,722,654 | 1,939,426,687 |

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**ANNEX 68-E - SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**
**DECEMBER 31, 2019 AND 2018**

| Ratio | Formula | Current Year | Prior Year |
|---|---|---|---|
| Current Ratio | Current assets / Current liabilities | 3.72 | 3.93 |
| Acid test Ratio | Quick assets / Current liabilities (quick assets includes current assets less inventories) | 1.15 | 1.11 |
| Solvency Ratios | EBITDA / Total debt (Total debt includes interest bearing loans and borrowings) | 0.20 | 0.20 |
| Debt-to-equity ratio | Total debt / Total stockholder's equity (Total debt includes interest bearing loans and borrowings) | 0.50 | 0.48 |
| Asset-to-equity ratio | Total assets / Total stockholder's equity | 1.50 | 1.48 |
| Interest rate coverage ratio | EBIT / Total interest (Total interest includes interest expense and capitalized interest) | 10.10 | 13.35 |
| Return on equity | Net profit attributable to Company's shareholders / Average total equity attributable to Company's shareholders | 0.06 | 0.06 |
| Return on assets | Net profit / Average total assets | 0.04 | 0.04 |
| Net profit margin | Net profit / Total revenues | 0.23 | 0.23 |

**GLOBAL-ESTATE RESORTS, INC.**
***(A Subsidiary of Megaworld Corporation)***
**7th Floor, Renaissance Towers, Meralco Avenue, Pasig City**

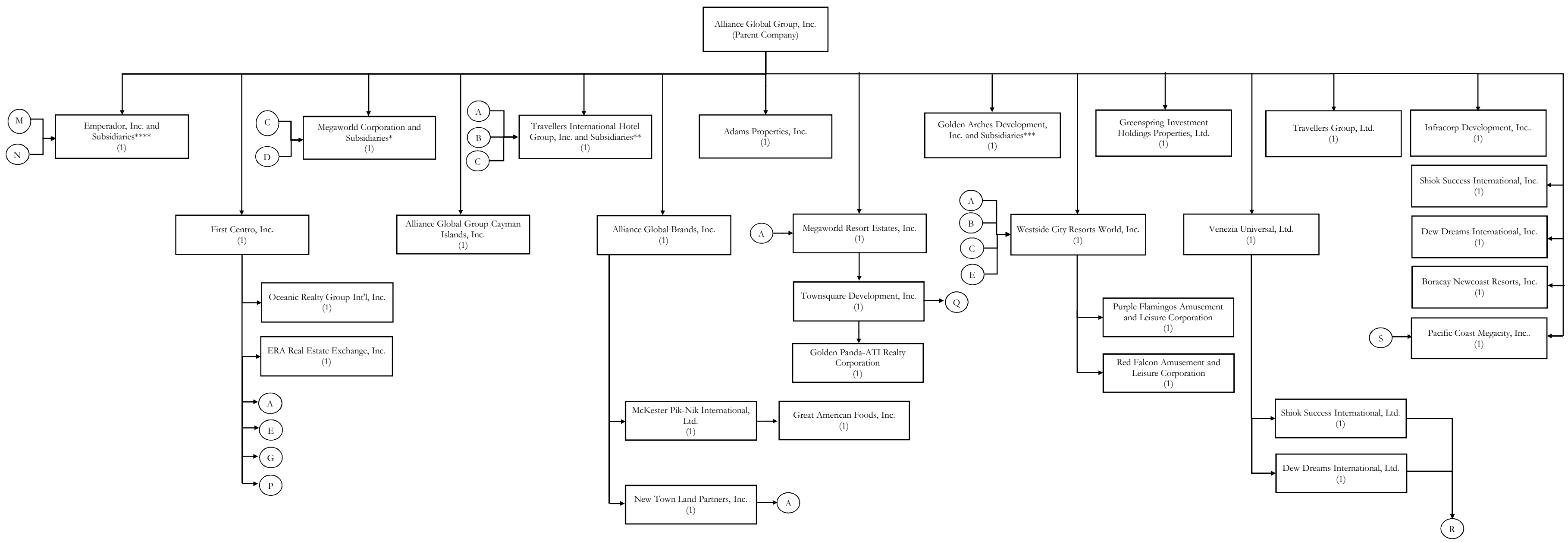
**Reconciliation of Retained Earnings Available for Dividend Declaration**
**For the Year Ended December 31, 2019**

| | | |
|---|---|---|
| **Unappropriated Retained Earnings at Beginning of Year** | | P 4,880,166,078 |
| **Prior Years' Outstanding Reconciling Items, net of tax** | | |
| Deferred tax assets | | ( 82,489,431 ) |
| **Unappropriated Retained Earnings at Beginning of Year, as Adjusted** | | 4,797,676,647 |
| **Net Profit Realized During the Year** | | |
| **Net profit per audited financial statements** | P 783,988,545 | |
| **Less: Non-actual/unrealized income, net of tax** | | |
| Deferred tax income during the year | ( 37,007,999 ) | |
| **Add: Non-actual/unrealized income, net of tax** | | |
| Share-based employee compensation | 625,067 | 747,605,613 |
| **Unappropriated Retained Earnings Available for Dividend Declaration at End of Year** | | **P 5,545,282,260** |

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**

Map Showing the Relationship Between Alliance Global Group, Inc.
and its Related Parties

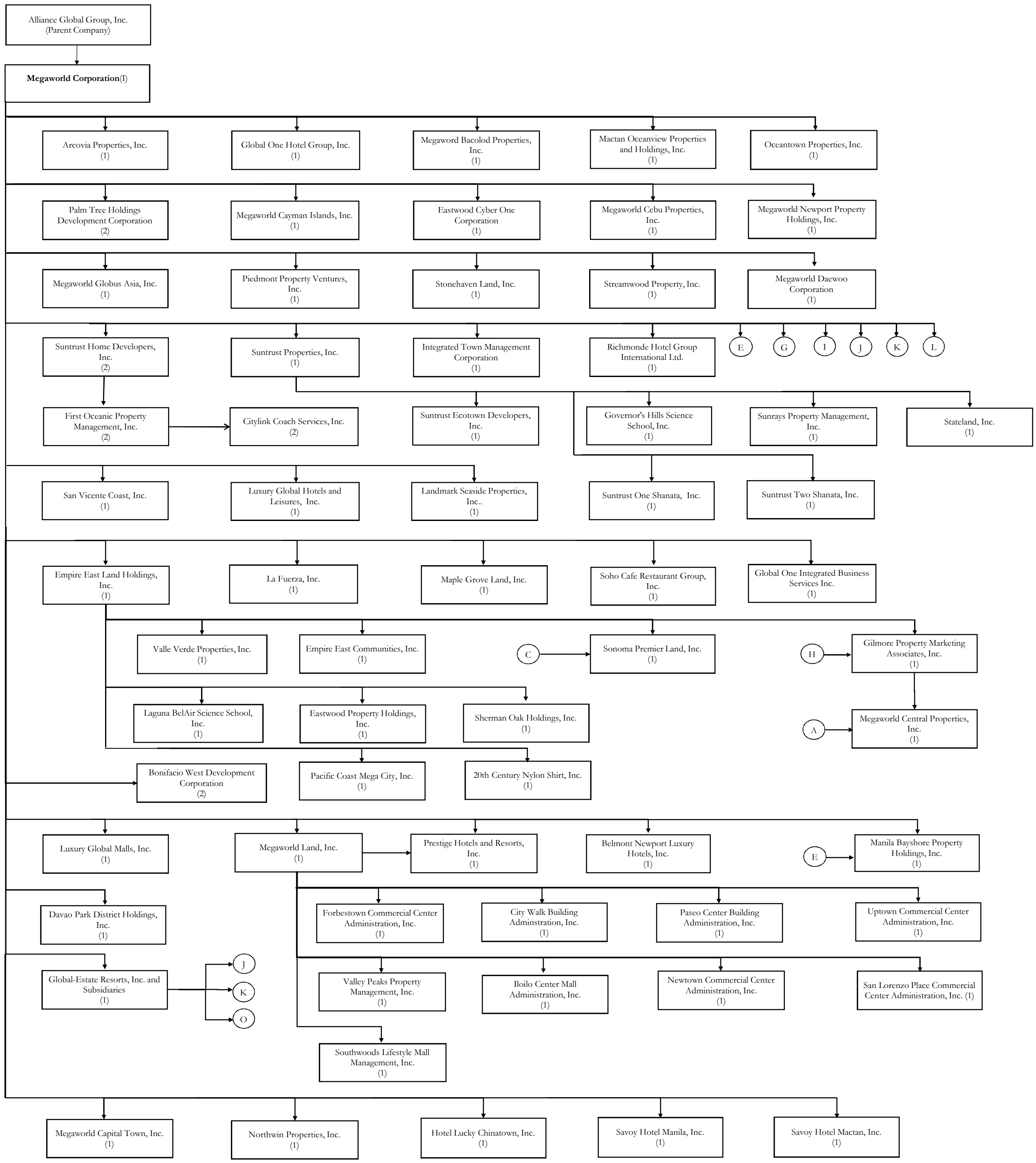
December 31, 2019




**Legend**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (1) | Subsidiary | A | Megaworld Corporation | F | Manila Bayshore Property Holdings, Inc. | K | Megaworld Global Estates, Inc. | P | Sonoma Premier Land, Inc. |
| (2) | Associate | B | Adams Properties, Inc. | G | Westside City Resorts World, Inc. | L | Megaworld Central Properties, Inc. | Q | Gilmore Property Marketing Associates, Inc. |
| (3) | Jointly Controlled Entity | C | First Centro, Inc. | H | Townsquare Development, Inc. | M | Shiok Success International, Ltd. | R | Emperador Inc. |
| | | D | Newtown Land Partners, Inc. | I | Megaworld Resort Estates, Inc. | N | Dew Dreams International, Ltd. | S | Empire East Land Holdings, Inc. |
| | | E | Travellers International Hotel Group, Inc. | J | Twin Lakes Corporation | O | Southwoods Mall, Inc. | | |

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
Map Showing the Relationship Between Alliance Global Group, Inc.
and Megaworld Corporation Group
December 31, 2019



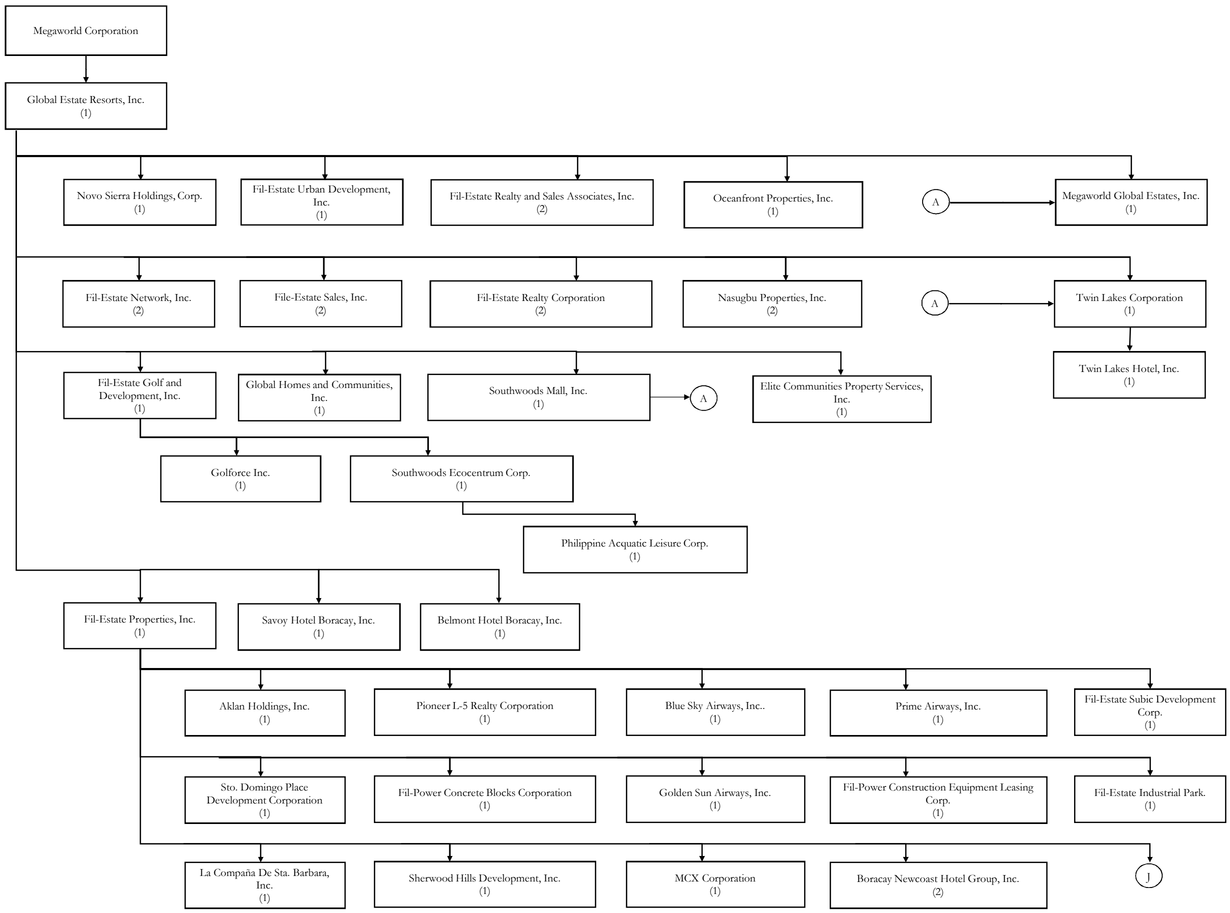

**Legend**

*Relationship with Megaworld Corporation*

(1) Subsidiary
(2) Associate
(3) Jointly Controlled Entity

| | | | |
|---|---|---|---|
| A | Megaworld Corporation | J | Twin Lakes Corporation |
| B | Adams Properties, Inc. | K | Megaworld Global Estates, Inc. |
| C | First Centro, Inc. | L | Megaworld Central Properties, Inc. |
| D | Newtown Land Partners, Inc. | M | Shiok Success International, Ltd. |
| E | Travellers International Hotel Group, Inc. | N | Dew Dreams International, Ltd. |
| F | Manila Bayshore Property Holdings, Inc. | O | Southwoods Mall, Inc. |
| G | Westside City Resorts World, Inc. | P | Sonoma Premier Land, Inc. |
| H | Townsquare Development, Inc. | Q | Gilmore Property Marketing Associates, Inc. |
| I | Megaworld Resort Estates, Inc. | R | Emperador Inc. |

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
Map Showing the Relationship Between and
Among Megaworld and Global Estate Resorts Inc. Group
December 31, 2019




**Legend**

| | | | |
|---|---|---|---|
| (1) | Subsidiary | | |
| (2) | Associate | | |
| (3) | Jointly Controlled Entity | | |
| A | MegaworldCorporation | J | Twin Lakes Corporation |
| B | Adams Properties, Inc. | K | Megaworld Global Estates, Inc. |
| C | First Centro, Inc. | L | Megaworld Central Properties, Inc. |
| D | Newtown Land Partners, Inc. | M | Shiok Success International, Ltd. |
| E | Travellers International Hotel Group, Inc. | N | Dew Dreams International, Ltd. |
| F | Manila Bayshore Property Holdings, Inc. | O | Southwoods Mall, Inc. |
| G | Westside City Resorts World, Inc. | P | Sonoma Premier Land, Inc. |
| H | Townsquare Development, Inc. | Q | Gilmore Property Marketing Associates, Inc. |
| I | Megaworld Resort Estates, Inc. | R | Emperador Inc. |

Trucost
ESG Analysis
S&P Global

# Global-Estate Resorts, Inc.
# ESG Report

## Financial Year 2019

**Credits**
**Erik Christianto |** Account Director
**Rochelle March |** Manager
**Byford Tsang |** Senior Analyst
**Deepti Panchratna** | Analyst
**Vandana Gaur |** Senior Specialist

**About Trucost**

Trucost is part of S&P Global. A leader in carbon and environmental data and risk analysis, Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Companies and financial institutions use Trucost intelligence to understand their ESG exposure to these factors, inform resilience and identify transformative solutions for a more sustainable global economy. S&P Global's commitment to environmental analysis and product innovation allows us to deliver essential ESG investment-related information to the global marketplace. For more information, visit www.trucost.com.

**About S&P Global**

S&P Global (NYSE: SPGI) is a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide. For more information, visit www.spglobal.com.

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# Table of Contents

# About Global-Estate Resorts, Inc.

Global-Estate Resorts, Inc. (Hereafter GERI) is a subsidiary of Megaworld Corporation and is based out of the Philippines. GERI is registered in the Philippines Stock Exchange. GERI's diverse portfolio of projects include residential communities integrated with golf, resort, leisure and commercial complexes, mixed-use condominium developments and a business park. GERI specializes in development of tourism estates with a vision to establish itself as a leading developer of master-planned and fully integrated tourism estates in the Philippines catering to both the domestic and foreign markets.

The real estate sector consumes significant amounts of energy primarily related to space heating, air conditioning, water heating, lighting and use of equipment and appliances. In addition, the sector consumes significant amounts of water in its operations through water fixtures, building equipment, appliances and irrigation. Moreover, the sector generates large amounts of waste through its operations that requires responsible disposal.

The real estate sector is subjected to stringent government rules and regulations. It is also exposed to a number of governance-related risks. In order to manage and avoid these risks, companies in the industry can implement a range of governance measures, including employee training, oversight, policies, procedures, and enforcement systems focused on transparency and appropriate disclosures. Effective management of these risks can lead to increased client trust and better brand value in the market, adding to long-term revenue growth. Inadequate management of risks may lead to regulatory fines and penalties, as well as decreased client trust and a loss of its social license to operate.

# Introduction

GERI engaged Trucost to review reporting of its environmental, social and governance (ESG) impacts for the financial year of 2019 (FY2019), which comprised of January 2019-December 2019. GERI is interested in measuring its baseline ESG impact that it can use to track progress against ESG-related activities over time. The results from this report are in line with common sustainability reporting frameworks such as Global Reporting Initiative (GRI), Climate Disclosure Projects (CDP), Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD), among others, and can satisfy the sustainability reporting requirements for the Philippines Stock Exchange.

Proactively identifying key materiality issues provides companies with the opportunity to increase their value, both in business and financial terms. Focusing on these material ESG issues can allow companies to positively impact their growth in terms of profit and customers, while failure to address these issues can have a negative effect on a company's reputation and profits. Through an ESG report, GERI can communicate the company's commitment to sustainable development and its key achievements, practices, and management approaches to its target audiences and stakeholders.

# Scope

GERI assessed and disclosed environmental, social and governance impacts for its owned buildings and operations.

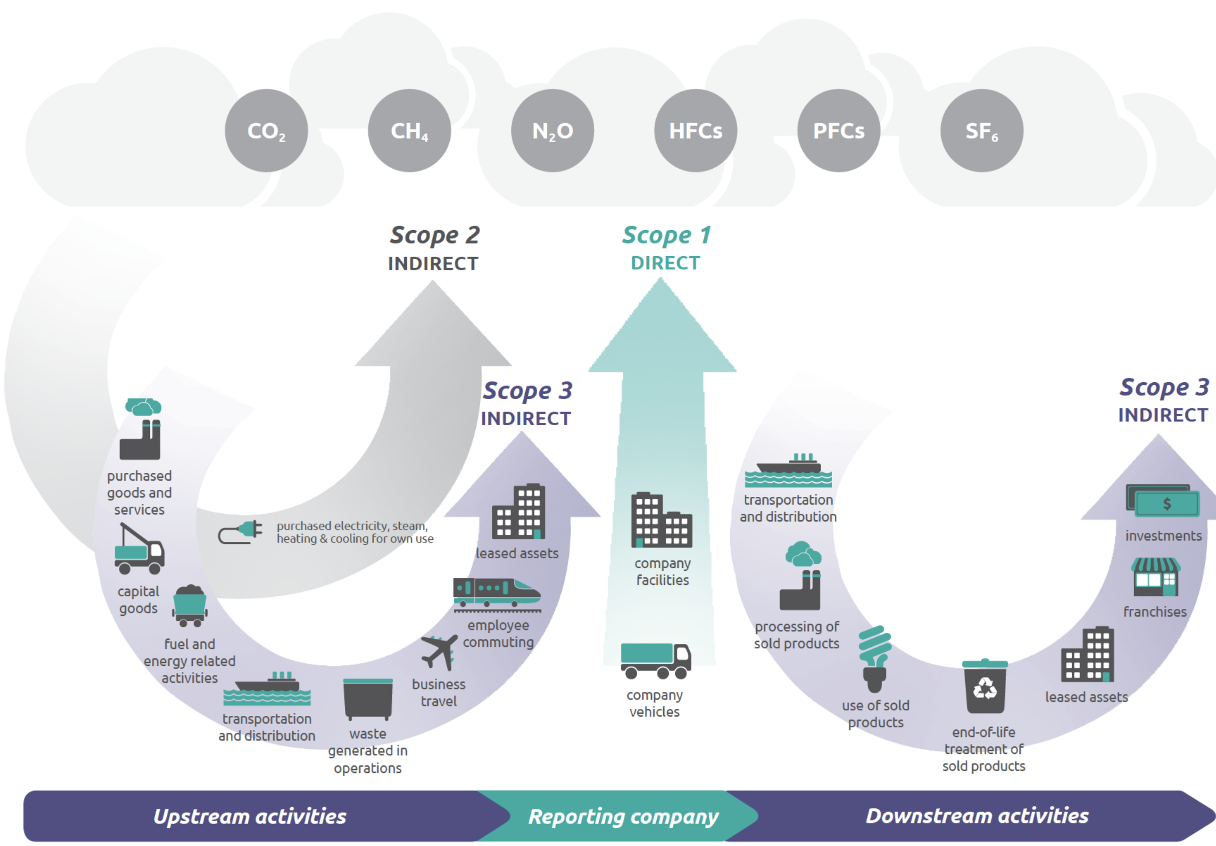
Environmental indicators covered include:

- GHG emissions, scope 1, 2 and select scope 3 (see exhibit 1 below)

- Electricity use
- Waste generation
- Water use
- Environmental standards

The figure below summarizes an organization's sources of GHG emissions, across scope 1 (direct emissions), scope 2 (indirect emissions, primarily purchased electricity) and scope 3 (indirect emissions from upstream suppliers and downstream customers).

FIGURE 1: SCOPE OF VALUE CHAIN GHG EMISSIONS FOOTPRINT




*Source: WRI (2015) GHG Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard.*

Social indicators covered include:

- Workforce diversity
- Employee training and development

Governance indicators covered include:

- Data privacy and security
- Electronic waste
- Stakeholder management
- Business ethics

## Board Statement

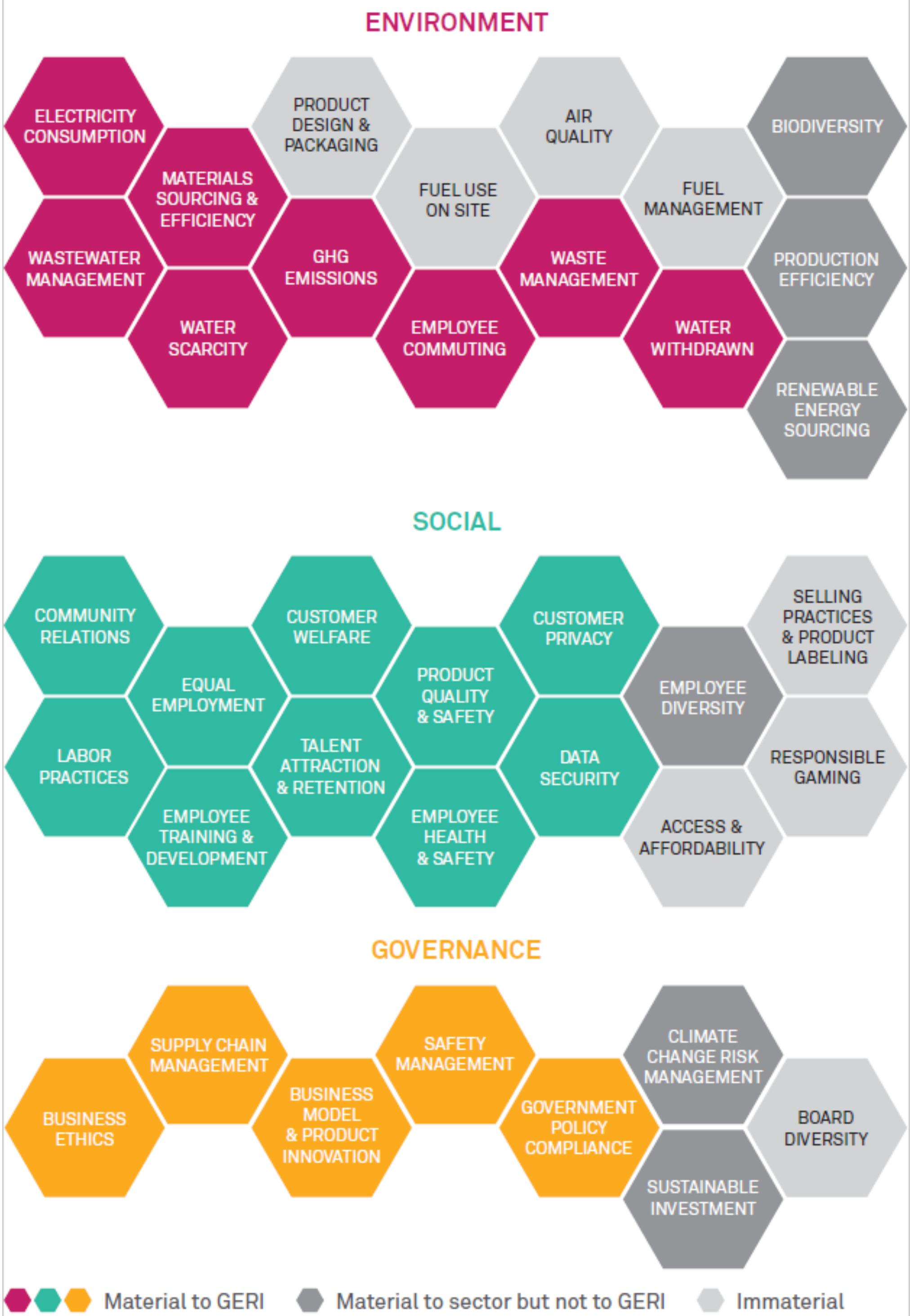
*The board of directors of the Company (the "Board" or the "Directors") is committed to maintaining a high standard of corporate governance and transparency within the Group and adopt sustainability reporting practices based on the Securities Exchange Commission's Sustainability Reporting Guidelines for Publicly-Listed Companies ("Guidelines"). The Board has adopted the Guidelines where appropriate so as to strengthen corporate governance and reporting practice and foster greater corporate disclosure.*

*In addition, it has embraced the SEC Memorandum Circular, which requires every listed issuer to prepare an annual sustainability report. This report is developed in line with the Guidelines on a 'comply or explain' basis. The policies, targets, risks and opportunities identified within an external independent review are monitored and reported within this ESG report and the Board commits to oversee the appropriate activities are undertaken to achieve the good practice targets set.*

*The Company recognizes the importance of good governance for continued growth and investors' confidence. In line with the commitment by the Company to maintaining high standards of corporate governance, the Company will continually review its corporate governance processes to strive to fully comply with the Guidelines. The Board confirms that for the financial year ended 31 December 2019 ("FY2019"), the Company has generally adhered to the principles and guidelines set out in the Guidelines, and where there are deviations from the Guidelines, appropriate explanations are provided.*

## ESG Materiality

**EXHIBIT 1: MATERIAL ESG ISSUES FOR GLOBAL-ESTATE RESORTS INC (GERI)**




*Source: Trucost analysis with input from SASB materiality review.*

Trucost considered sector-level materiality to identify all issues relevant to companies operating in the associated sectors. These themes were identified using SASB, investor trend review and a wider literature review. Sector-level materiality was identified and refined based on specific practices of the company. Many of these issues are not applicable to GERI due to its specific operations. Exhibit 1 highlights the material ESG issues identified for GERI. Sector level issues that are not relevant to GERI, but were considered, are represented with dark grey shading, while issues that are immaterial for the sector and operations are colored light grey.

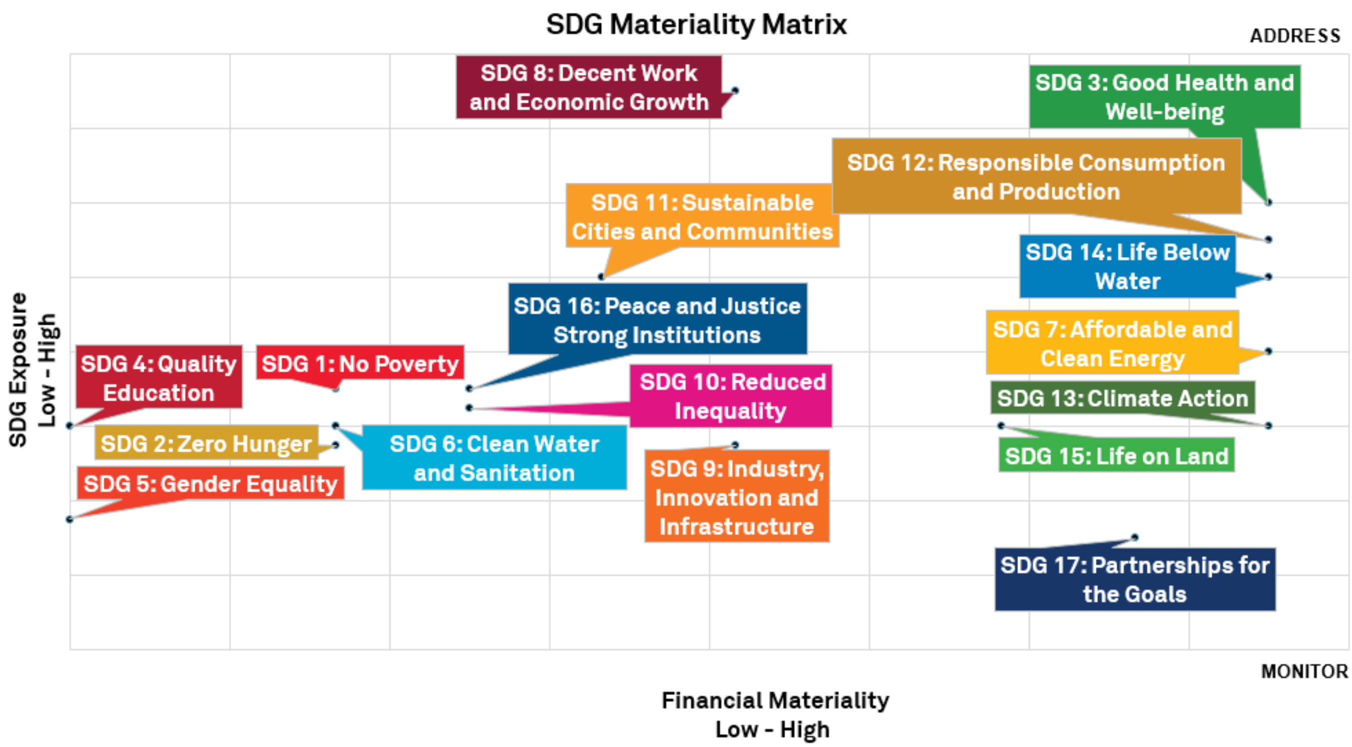
## SDG Materiality

In 2015, the United Nations developed a blueprint for achieving peace and prosperity for people and the planet by 2030 in the form of 17 global goals and 169 targets for sustainable development. The United Nations Sustainable Development Goals (SDGs) are a call to action for governments, society and the private sector to achieve a more sustainable future. Since their launch in 2015, the SDGs have garnered widespread backing among companies and investors who have made progress towards aligning business strategies and capital allocation with the SDGs.

Exhibit 2 displays the top material SDGs for GERI based on the company's operating sector and geographies and financial materiality[1]. The matrix ranks the SDGs for GERI based on the level of importance of SDG-related issues based on GERI's operating sectors and geographies and the degree of financial materiality of issues underlying each SDG. SDGs in the right-hand upper quadrant of the matrix are considered high in both financial materiality and potential risk exposure related to the SDGs; it is recommended that GERI prioritize activities related to addressing these SDGs in order to mitigate any adverse impacts to or by the company. These include SDG 3 (Good Health and Well-being), SDG 12 (Responsible Consumption and Production), and SDG 14 (Life Below Water). Areas to focus on related to these SDGs include healthcare access to employees, decreasing pollution from operations (SDG 3), reducing material use and increasing operational efficiencies (SDG 12), and reducing water pollution that runs off into marine waterways (SDG 14). In the right-hand lower quadrant are SDGs that are considered high in financial materiality, but lesser in magnitude in terms of SDG-related issues that may affect or be affected by GERI; it is recommended to monitor these SDG-related issues. These include SDG 7 (Affordable and Clean Energy), SDG 13 (Climate Action), SDG 15 (Life on Land), and SDG 17 (Partnerships for the Goals). Areas to monitor related to these SDGs include energy consumption and efficiency, access to renewable energy (SDG 7), reduction of GHG emissions, resiliency planning for the impacts of climate change (SDG 13), practicing transparent and accountable tax disclosure, and becoming a signatory to the United Nations Global Compact (SDG 17).

[1] Top financial material issues are provided by the SASB Materiality Matrix (https://materiality.sasb.org/) and mapped by Trucost to associated SDGs.

EXHIBIT 2: SDG MATERIALITY MATRIX




# Environmental Impact

## Operational Greenhouse Gas Emissions

Trucost reviewed GERI's environmental data for FY2019. Exhibit 3 below relates the key findings for environmental impacts. These impacts are described in absolute terms, or their total volume, as well as in intensity terms by $m^2$ of GERI's floor area (556,641 $m^2$), by employee (801 employees) and by revenue (4,159 mPHP).

EXHIBIT 3: COMBINED DIRECT AND INDIRECT OPERATIONAL GREENHOUSE GAS EMISSIONS, FY2019

| Scope | Absolute Emissions | Carbon Intensity | | |
|---|---|---|---|---|
| | | tCO2e per $m^2$ of floor area | tCO2e per employee | tCO2e per million PHP revenue |
| **Scope 1** | 2,857 | 0.005 | 3.57 | 0.69 |
| **Scope 2 (Location-Based)** | 23,918 | 0.04 | 29.86 | 5.75 |
| **Scope 3 (Location-based)** | 95 | 0.0002 | 0.12 | 0.02 |
| **Total Emissions** | 26,869 | 0.05 | 33.54 | 6.46 |

Breakdown of emissions

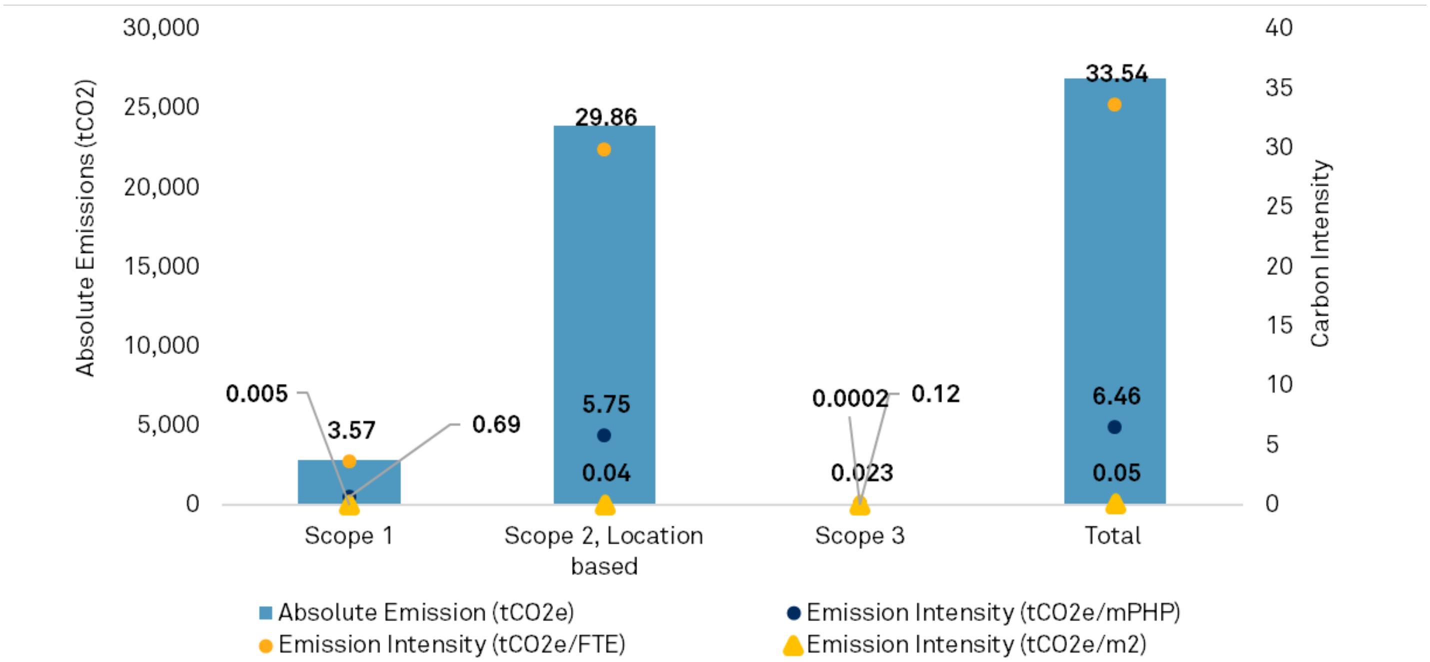
| Scope | Category | Absolute emissions tCO2e |
|---|---|---|
| **Scope 1** | Stationary Emissions | 2,609 |

| | | |
|---|---|---|
| **Scope 1** | Mobile Emissions | 248 |
| **Scope 2** | Electricity: Location Based | 23,918 |
| **Scope 3** | Category 5: Waste generated in operations | 17 |
| **Scope 3** | Category 6: Business travel | 77 |
| **Total Emissions** | | **26,869** |

GERI has proactively taken measures to reduce emissions and protect the environment. The following are a sample of the initiatives taken by GERI:

- Installation and proper maintenance of gensets accredited by the Department of Environment and Natural Resources (DENR)
- Reduced/efficient usage of electricity
- Maximize the usage of company vehicles by planning trips efficiently
- Conduct tree planting activities to reduce GHG emissions by creating a carbon sink
- Use of solar powered LED streetlights

EXHIBIT 4: GHG EMISSIONS ABSOLUTE VALUES AND INTENSITY VALUES, FY2019




## Direct (Scope 1) GHG Emissions

Direct emissions are GHG emissions from organizational operations are direct (or scope 1) emissions derived from propane, diesel, natural gas consumption for boiler, gas turbine, diesel generators, owned transportation and refrigeration processes. GERI's scope 1 emissions during FY2019 was 2,857 tCO2e, and the intensities of GHG emissions normalized by square meter of floor area, employees and revenue were 0.005 $tCO2e/m^2$, 3.57 tCO2e/employee and 0.69 tCO2e/PHP million, respectively.

## Indirect (Scope 2) GHG Emissions

A second component of GHG emissions related to organizational operations are indirect (or scope 2) emissions primarily from the consumption of purchased electricity. GERI's scope 2 emissions (location-based) during FY2019 was 23,918 tCO2e. 100% of the electricity was purchased from an electric grid. The intensities of GHG emissions normalized by square meter floor area, employees and revenue were 0.04 $tCO2e/m^2$, 29.86 tCO2e/employee and 5.75 tCO2e/PHP million, respectively.

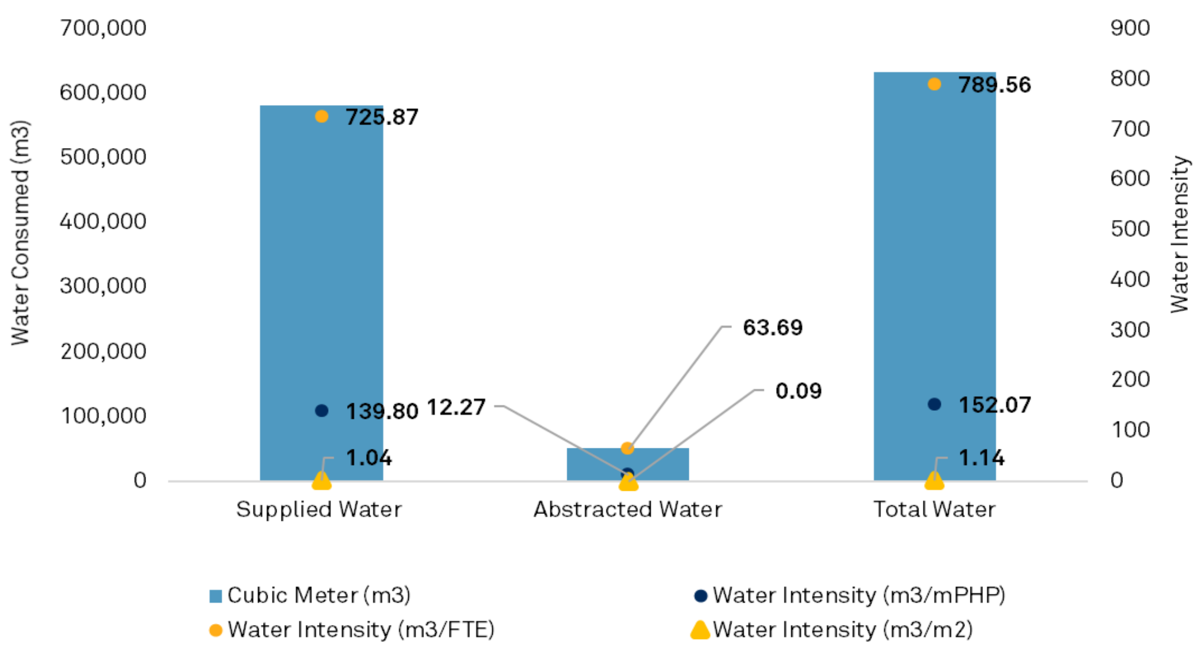
## Indirect (Scope 3) GHG Emissions

A final component of GHG emissions related to organizational operations are indirect (or scope 3). GERI's scope 3 emissions during FY2019 were calculated for category 5, waste generated in operations, and category 6, business travel. The intensities of GHG emissions normalized by square meter floor area, employees and revenue were 0.0002 $tCO2e/m^2$, 0.12 tCO2e/employee and 0.023 tCO2e/PHP million.

## Water Use

In FY2019, absolute water use from supplied water from local utilities was 581,424 cubic meters. In addition, GERI extracts water for its operations. The amount of water abstracted is 51,017 cubic meters and GERI has received permits from the National Water Resource Board (NWRB) for water extraction. Water use intensity normalized by square meter of floor area, employee and revenue were 1.14 $m^3/m^2$, 789.56 $m^3$/employee and 152.07 $m^3$/PHP million respectively.

EXHIBIT 5: WATER USE, FY2019



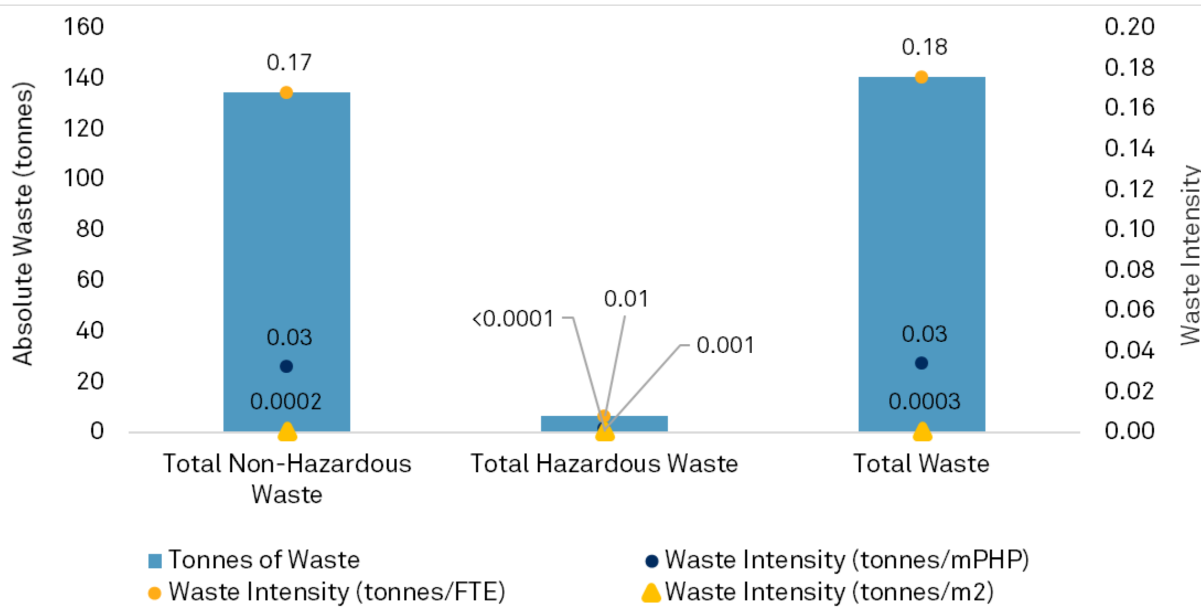
GERI has taken steps to safeguard the quantity and quality of water, a sample of which are listed below:

- Provision of Sewage Treatment Facility (with disinfection process)
- Installation of flowmeters to monitor discharge
- Use of environmentally friendly cleaning materials to lessen the nutrient load at source
- Implementation and practice of water conservation programs
- Strict compliance to RA 9275 and other water and wastewater related regulations
- Provision of sewerage line (force property locators to connect to sewer)

## Waste Generation and Recycling

Absolute non-hazardous waste and hazardous waste generated in FY2019 was 134 and 6 tonnes (for two projects), respectively. Major types of waste that contributed to the total mass were solid waste, metal, plastic and paper. The intensity of total waste generated normalized by square meter of floor area, employee and revenue were 0.0003 tonnes/$m^2$, 0.18 tonnes/employee and 0.03 tonnes/PHP million.

EXHIBIT 6: LANDFILLED AND RECYCLED WASTE, FY2019




The following are sample measures taken by the management of GERI to handle waste generated in operations:

- Strict compliance to RA 6969, other hazardous waste-related policies & regulations and RA 9003 for non-hazardous waste

## Environmental Standards

GERI aspires to be a leader in tourism real estate with properties designed to safeguard the environment. GERI has targets in place to craft environmental policies in the future. It also has considered accrediting facilities towards LEED certification. Presently, Fairways and Bluewater Resort Golf and Country Club have been assessed and registered by Veritas Assurance International to be compliant to the requirements of ISO 14001:2015, ISO 9001:2015 and ISO 45001:2018. The certificates were issued last in December 17, 2018 and are valid until December 16, 2021.

# Social Impact

## Workforce Diversity

Overall, the company has 42% male and 58% female representation. The largest age group of all staff in the company is between the ages of less than 30 (64%), followed by 30-50 (30%), then over 50 (6%).

EXHIBIT 7: GROUP DIVERSITY AND EMPLOYEE REPRESENTATION, FY2019

| **Diversity** | | **Number of Staff** | | |
|---|---|---|---|---|
| | | Executive | Non-executive | Total |
| **Gender** | Male | 12 | 322 | 334 |
| | Female | 13 | 454 | 467 |
| **Age group** | Under 30 | - | 515 | 515 |
| | 30-50 | 12 | 226 | 238 |
| | Over 50 | 13 | 35 | 48 |

## Employee Training and Development

GERI recognizes that training and education form an important part in the development of employee skills and supporting career development. In 2019, the Company dedicated 6,408 hours on training employees, which entailed a total expenditure of 1,058,875 PHP.

Additionally, performance reviews are scheduled bi-annually to support in career development, promotion and merit enhancement. GERI also provides several government mandated and voluntary benefits to its employees such as leaves, salary loans, several loans options, medical benefits, etc.

EXHIBIT 8: EMPLOYEE TRAINING AND DEVELOPMENT, FY2019

| **Employee Training** | |
|---|---|
| **Number of hours of training completed** | 6,408 |
| **Total expenditure on employee training programs** | 1,058,875 PHP |
| **Employee Development, % of employees receiving regular performance and career development reviews** | |
| **Male** | 42.12% |
| **Female** | 53.29% |

## CSR Initiatives

GERI has the following CSR programs:

1. Blood Donation Program – Every year employees donate blood in partnership with Medicard (HMO) and the Philippine Red Cross
2. BYOU (Bring Your Own Utensils!) – Everyday program where employees are asked to bring their own stainless-steel utensils, in order to reduce plastic usage and safeguard environment
3. Earth Hour & GERI Unplugged – Earth hour is observed during lunch time wherein lights are switched off to conserve electricity. GERI Unplugged is a program where employees are asked to unplug cords after office hours to save on electricity
4. Creek & Coastal Clean-up and Tree Planting Activity – This program aims to promote a CARING culture within the company so that it becomes natural for employees to care for our customers when they care for the environment

EXHIBIT 9: CSR INITIATIVES, FY2019

| **CSR Initiatives** | |
|---|---|
| **Amount of donations** | N/A |
| **Volunteer hours** | 180 |

# Governance

## Data Privacy and Security

In FY2019, GERI has collected and stored data for 15,000 clients and three companies. Data was safely disposed of after it is utilized. Prior to discarding the hard disks, GERI formats and delete the data stored on the hard disks.

EXHIBIT 10: DATA PRIVACY AND SECURITY, FY2019

| **Data Management Practices** | |
|---|---|
| **Number of individual clients for whom data was primarily stored** | 15,000 |
| **Number of companies for which secondary data is stored** | 3 |
| **Data Breaches** | |
| **Number of data security breaches in financial year** | None |

## Electronic Waste

GERI discards its electronic waste in a responsible manner. Outdated and defective electronic equipment are inspected and evaluated by the ITC Department prior to disposal. None of the electronic equipment was discarded in FY2019.

Electronic waste is not processed on site. All wastes are temporarily stored until collected by Department of Environment and Natural Resources (DENR) accredited transporters and treaters. No e-waste was transported in FY2019. As per RA 6969, hazardous wastes can be stored on site for up to a year for small and medium waste generators.

EXHIBIT 11: ELECTRONIC WASTE, FY2019

| **Electronic Waste Management** | |
|---|---|
| **Fate of electronic waste not processed at site** | Sent for disposal to DENR accredited treaters |
| **Record maintained regarding end fate of waste electronics** | Certificate of treatment from a DENR-Accredited Treater |
| **Disposal criteria** | Disposed only through DENR accredited transporter and treaters |

## Stakeholder Management

GERI considers suppliers, communities and customers as its primary stakeholders. The company has a vendor code of conduct and suppliers must have relevant permits to operate with GERI. The company is committed in resolving issues raised by customers through is Accounts Management group. The company also has programs and initiatives for the betterment of the communities it operates within.

EXHIBIT 12: STAKEHOLDER MANAGEMENT, FY2019

| **Procurement and Supply Chain Management** | |
|---|---|
| **Supply chain procurement policies** | Yes |
| **Supplier code of conduct** | Yes |
| **Relationship with community** | |
| **Policy for development and maintenance of communities** | Yes |
| **Customer Satisfaction** | |
| **Policy for developing and maintaining customer satisfaction?** | Tool for customer satisfaction |

## Business Ethics

GERI has implemented several policies to ensure that it conducts business in a fair manner. GERI has anti-money laundering policies, anti-corruption policies and mechanisms for raising grievances. All GERI projects have an Environmental Impact Assessment/Statement (EIS), and an Environmental Compliance Certificate from the Environmental Management Bureau of the Department of Environment & Natural Resources (EMB-DENR) on all its developments. In addition, GERI strictly complies with the following laws and other rules and regulations in the conduct of its business:

- Republic Act 6969: Control of toxic substances and hazardous and nuclear wastes
- Republic Act 8749: Clean Air Act of 1999

- Republic Act 9003: Ecological & Solid Waste Management Act of 2000
- Republic Act 9275: Clean Water Act of 2004

EXHIBIT 13: GOVERNANCE INDICATORS, FY2019

| **Anti-Money Laundering** | |
|---|---|
| **Total amount of monetary losses as a result of legal proceedings associated with money laundering** | N/A |
| **Anti-money laundering policy in place** | Company's manual of corporate governance |
| **Anti-corruption policy in place** | Company's manual of corporate governance |
| **Grievance mechanism in place** | Company's manual of corporate governance |
| **Environmental management policy** | Environmental compliance certificate from EMB-DENR |
| **Contamination management policy** | Comply with Republic Act 6969 |
| **Contamination risk policy** | GERI strictly complies with the:<br>1. Republic Act 8749: Clean Air Act of 1999<br>2. Republic Act 9003: Ecological & Solid Waste Act of 2000<br>3. Republic Act 9275: Clean Water Act of 2004 |

# Appendix I – Setting Science-Based GHG Reduction Targets

Targets to reduce GHG emissions are considered science-based if they align with the level of decarbonization needed to keep global temperature increase <2°C compared to preindustrial temperatures, per the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC)[2].

The Science Based Targets Initiative is a joint initiative of CDP, the UN Global Compact, the World Resources Institute, and WWF.[2] The initiative allows companies to choose from several target-setting methods, depending on the requirements of their sector. Researchers developed the Sectoral Decarbonization Approach through a multi-stakeholder process, which allocates the 2°C carbon budget to different sectors and limits any single company's GHG emissions to an amount based on its "fair share."[2]

This method takes account of inherent differences among sectors, such as how fast each sector can grow relative to economic and population growth. Within each sector, companies can derive their science-based emission reduction targets based on their relative contribution to the total sector activity and their carbon intensity relative to the sector's intensity in the base year.

Science-based GHG reduction targets are a natural next step and can assist a company in targeting improvement in the most-needed areas, such as the energy mix of power generation, transport and logistics. In addition, science-based targets will ensure that the company's reduction goals "are in line with the level of decarbonization required to keep global temperature increase below 2 degrees Celsius compared to pre-industrial temperatures."[2]

As of December 2019, 742 companies have committed to science-based targets. While the Science Based Target Initiative accepts both absolute and intensity targets, there is a preference for setting absolute targets, as they ensure an overall reduction in GHG emissions relative to the remaining carbon budget. However, Trucost recommends that companies set both absolute and intensity targets to provide the most transparency to stakeholders. Using both targets also can help track real reductions in emissions and improvements to efficiency performance, while allowing for flexibility in addressing stakeholder needs.

[2] https://www.ipcc.ch/assessment-report/ar5/

# C O V E R   S H E E T

**for**

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| A | S | - | 9 | 4 | 0 | 0 | 4 | 4 | 6 | 2 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

GLOBAL-ESTATE RESORTS INC

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

16TH FLR ALLIANCE GLOBAL TOWER
36TH ST COR. 11TH AVENUE
UPTOWN BONIFACIO TAGUIG CITY

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

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| lvvillanueva@global-estate.ph | 328-4374 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 4,208 | June - 29 | December - 31 |

## CONTACT PERSON INFORMATION

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| LAILANI V. VILLANUEVA | lvvillanueva@global-estate.ph | 328-4374 | N/A |

## CONTACT PERSON'S ADDRESS

**16F Alliance Global Tower, 36th St. cor. 11th Ave., Uptown Bonifacio, Taguig City**

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

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

GLOBAL-ESTATE RESORTS, INC.

16th Floor, Alliance Global Tower, 36th St. cor. 11th Ave. Uptown Bonifacio Taguig City 1634 Philippines
Telephone No. 328-4374

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

The management of **Global-Estate Resorts, Inc.** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative to do so.

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

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

**Andrew L. Tan**
Chairman of the Board

**Monica T. Salomon**
President

**Lailani V. Villanueva**
Chief Finance Officer

P&A
Grant Thornton
An instinct for growth™

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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# Report of Independent Auditors

**The Board of Directors and Stockholders**
**Global-Estate Resorts, Inc.**
***(A Subsidiary of Megaworld Corporation)***
16th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Global-Estate Resorts, Inc. (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics for Professional Accountants in the Philippines* (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of a Matter – Subsequent Event Relating to COVID 19 Outbreak*

We draw attention to Note 31 in the notes to the financial statements, which describes the likely negative impact of the business disruption as a result of the coronavirus outbreak to the Company's financial condition and performance after the end of the reporting period. Our opinion is not modified with respect to this matter.

### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### *Auditors' Responsibility for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

## Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2019 required by the Bureau of Internal Revenue as disclosed in Note 32 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner in the audit resulting in this independent auditor's report is Renan A. Piamonte.

**PUNONGBAYAN & ARAULLO**

**By: Renan A. Piamonte**
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 8116553, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 107805-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-037-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 3, 2020

**GLOBAL-ESTATE RESORTS, INC.**
***(A Subsidiary of Megaworld Corporation)***
**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2019 AND 2018**
***(Amounts in Philippine Pesos)***

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **A S S E T S** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 4 | **P 1,914,039,462** | P 1,329,849,615 |
| Trade and other receivables | 5 | **4,088,568,714** | 2,620,354,428 |
| Contract assets | 17 | **41,173,074** | 1,678,020,559 |
| Advances to related parties | 22 | **10,178,253,319** | 10,528,846,285 |
| Inventories | 6 | **4,442,671,567** | 4,374,892,785 |
| Prepayments and other current assets | 7 | **1,057,883,039** | 830,795,666 |
| Total Current Assets | | **21,722,589,175** | 21,362,759,338 |
| **NON-CURRENT ASSETS** | | | |
| Trade and other receivables | 5 | **2,086,089,527** | 315,395,551 |
| Contract assets | 17 | **73,922,650** | 861,122,158 |
| Advances to joint ventures | 8 | **186,680,846** | 155,879,311 |
| Investments in subsidiaries and associates | 9 | **4,445,713,299** | 4,444,463,299 |
| Property and equipment - net | 10 | **139,564,571** | 130,220,612 |
| Right-of-use assets - net | 11 | **168,872,252** | - |
| Investment property - net | 12 | **1,890,740,633** | 1,150,928,289 |
| Other non-current asset - net | 13 | **-** | 265,076,899 |
| Total Non-current Assets | | **8,991,583,778** | 7,323,086,119 |
| **TOTAL ASSETS** | | **P 30,714,172,953** | P 28,685,845,457 |

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing loans | 14, 30 | **P 1,480,769,231** | P 1,461,538,462 |
| Trade and other payables | 15 | **1,529,241,083** | 1,819,948,201 |
| Contract liabilities | 17 | **206,002,907** | 261,137,161 |
| Customers' deposits | 2 | **628,726,363** | 421,383,895 |
| Advances from related parties | 22, 30 | **235,579,818** | 324,148,328 |
| Lease liabilities | 11 | **64,456,834** | - |
| Income tax payable | | **76,371,461** | 38,214,521 |
| Total Current Liabilities | | **4,221,147,697** | 4,326,370,568 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing loans | 14, 30 | **3,000,000,000** | 2,480,769,231 |
| Contract liabilities | 17 | **306,615,065** | 30,258,339 |
| Customers' deposits | 2 | **64,088,947** | 23,553,835 |
| Retirement benefit obligation | 20 | **60,721,137** | 22,460,370 |
| Deferred tax liabilities - net | 21 | **941,816,221** | 839,909,641 |
| Lease liabilities | 11 | **429,834,850** | - |
| Other non-current liabilities | 16 | **297,242,540** | 585,153,549 |
| Total Non-current Liabilities | | **5,100,318,760** | 3,982,104,965 |
| Total Liabilities | | **9,321,466,457** | 8,308,475,533 |
| **EQUITY** | | | |
| Capital stock | 23 | **10,986,000,000** | 10,986,000,000 |
| Additional paid-in capital | | **4,747,739,274** | 4,747,739,274 |
| Revaluation reserves | | **( 6,080,354 )** | 16,388,732 |
| Retained earnings | | **5,665,047,576** | 4,627,241,918 |
| Total Equity | | **21,392,706,496** | 20,377,369,924 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 30,714,172,953** | P 28,685,845,457 |

***See Notes to Financial Statements.***

**GLOBAL-ESTATE RESORTS, INC.**
***(A Subsidiary of Megaworld Corporation)***
**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**
***(Amounts in Philippine Pesos)***

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Real estate sales | 17 | **P 3,288,483,366** | P 4,301,408,718 | P 3,904,128,316 |
| Rental income | 12, 13 | **171,962,627** | 116,500,601 | 83,214,260 |
| Finance income | 19 | **88,761,947** | 67,518,582 | 19,658,644 |
| Management and marketing income | 8, 22 | **228,287,991** | 234,600,285 | 105,192,712 |
| Others | 22 | **61,478,198** | 16,168,193 | 76,451,741 |
| | | **3,838,974,129** | 4,736,196,379 | 4,188,645,673 |
| **COSTS AND EXPENSES** | | | | |
| Cost of real estate sales | 18 | **1,459,939,404** | 1,960,751,972 | 1,625,366,950 |
| Cost of rentals | 18 | **40,267,051** | 19,145,785 | 15,748,703 |
| Other operating expenses | 18 | **849,090,124** | 811,907,202 | 669,721,085 |
| Finance costs and other charges | 19 | **350,086,680** | 241,860,258 | 56,551,522 |
| | | **2,699,383,259** | 3,033,665,217 | 2,367,388,260 |
| **PROFIT BEFORE TAX** | | **1,139,590,870** | 1,702,531,162 | 1,821,257,413 |
| **TAX EXPENSE** | 21 | **355,602,325** | 532,921,005 | 553,150,522 |
| **NET PROFIT** | | **783,988,545** | 1,169,610,157 | 1,268,106,891 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | |
| Remeasurements of retirement benefit plan | 20 | **( 32,098,695 )** | 18,796,282 | 9,102,207 |
| Tax income (expense) | 21 | **9,629,609** | ( 5,638,885 ) | ( 2,730,662 ) |
| | | **( 22,469,086 )** | 13,157,397 | 6,371,545 |
| **TOTAL COMPREHENSIVE INCOME** | | **P 761,519,459** | P 1,182,767,554 | P 1,274,478,436 |
| **EARNINGS PER SHARE** | | | | |
| Basic | 24 | **P 0.071** | P 0.106 | P 0.115 |
| Diluted | 24 | **P 0.069** | P 0.103 | P 0.112 |

***See Notes to Financial Statements.***

**GLOBAL-ESTATE RESORTS, INC.**
***(A Subsidiary of Megaworld Corporation)***
**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**
***(Amounts in Philippine Pesos)***

| | **Capital Stock** (See Note 23) | **Additional Paid-in Capital** | **Revaluation Reserves** (See Note 20) | **Retained Earnings** (See Notes 2 and 23) | **Total** |
|---|---|---|---|---|---|
| Balance at January 1, 2019 | | | | | |
| As previously reported | P 10,986,000,000 | P 4,747,739,274 | P 16,388,732 | P 4,627,241,918 | P 20,377,369,924 |
| Effect of adoption of PFRS 16 | - | - | - | 252,924,160 | 252,924,160 |
| As adjusted | 10,986,000,000 | 4,747,739,274 | 16,388,732 | 4,880,166,078 | 20,630,294,084 |
| Share-based employee compensation | - | - | - | 892,953 | 892,953 |
| Total comprehensive income for the year | - | - | ( 22,469,086 ) | 783,988,545 | 761,519,459 |
| Balance at December 31, 2019 | **P 10,986,000,000** | **P 4,747,739,274** | **( P 6,080,354 )** | **P 5,665,047,576** | **P 21,392,706,496** |
| Balance at January 1, 2018 | P 10,986,000,000 | P 4,747,739,274 | P 3,231,335 | P 3,454,324,603 | P 19,191,295,212 |
| Share-based employee compensation | - | - | - | 3,307,158 | 3,307,158 |
| Total comprehensive income for the year | - | - | 13,157,397 | 1,169,610,157 | 1,182,767,554 |
| Balance at December 31, 2018 | P 10,986,000,000 | P 4,747,739,274 | P 16,388,732 | P 4,627,241,918 | P 20,377,369,924 |
| Balance at January 1, 2017 | P 10,986,000,000 | P 4,747,739,274 | ( P 3,140,210 ) | P 2,176,178,399 | P 17,906,777,463 |
| Share-based employee compensation | - | - | - | 10,039,313 | 10,039,313 |
| Total comprehensive income (loss) for the year | - | - | 6,371,545 | 1,268,106,891 | 1,274,478,436 |
| Balance at December 31, 2017 | P 10,986,000,000 | P 4,747,739,274 | P 3,231,335 | P 3,454,324,603 | P 19,191,295,212 |

***See Notes to Financial Statements.***

**GLOBAL-ESTATE RESORTS, INC.**
***(A Subsidiary of Megaworld Corporation)***
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**
***(Amounts in Philippine Pesos)***

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | **P 1,139,590,870** | P 1,702,531,162 | P 1,821,257,413 |
| Adjustments for: | | | | |
| Interest expense | 19 | **193,800,953** | 146,547,499 | 23,997,422 |
| Depreciation and amortization | 18 | **137,454,233** | 47,202,781 | 41,114,864 |
| Interest income | 19 | **( 88,761,947 )** | ( 65,462,893 ) | ( 19,658,644 ) |
| Dividend income | 9 | **( 50,000,000 )** | ( 1,900,895 ) | - |
| Impairment losses | 9 | **29,626,373** | 49,808,363 | - |
| Unrealized foreign exchange losses (gains) | 19 | **3,055,197** | ( 2,055,689 ) | 3,978,328 |
| Share-based employee compensation | 20, 23 | **892,953** | 3,307,158 | 10,039,313 |
| Operating profit before working capital changes | | **1,365,658,632** | 1,879,977,486 | 1,880,728,696 |
| Increase in trade and other receivables | | **( 2,524,518,337 )** | ( 951,022,355 ) | ( 635,457,264 ) |
| Decrease (increase) in contract assets | | **2,424,046,993** | ( 780,265,713 ) | ( 415,581,675 ) |
| Decrease (increase) in inventories | | **( 770,691,499 )** | 187,575,345 | ( 520,885,670 ) |
| Increase in prepayments and other current assets | | **( 588,337,119 )** | ( 175,023,565 ) | ( 230,888,844 ) |
| Increase in advances to joint venture | | **( 30,801,535 )** | ( 63,100,583 ) | ( 92,778,728 ) |
| Increase (decrease) in trade and other payables | | **( 132,015,978 )** | 674,357,169 | 247,345,289 |
| Increase (decrease) in contract liabilities | | **221,222,472** | 67,850,434 | ( 79,851,176 ) |
| Increase (decrease) in customers' deposits | | **247,877,580** | ( 116,298,259 ) | ( 248,759,968 ) |
| Increase in retirement benefit obligation | | **4,129,409** | 5,485,474 | 9,377,443 |
| Increase (decrease) in other non-current liabilities | | **( 24,370,379 )** | 6,506,693 | 105,804,722 |
| Cash generated from operations | | **192,200,239** | 736,042,126 | 19,052,825 |
| Cash paid for income taxes | | **( 58,141,275 )** | ( 105,085,757 ) | ( 81,216,139 ) |
| Net Cash From (Used in) Operating Activities | | **134,058,964** | 630,956,369 | ( 62,163,314 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Collections of advances to related parties | 22 | **444,527,780** | 38,041,955 | 164,459,520 |
| Advances granted to related parties | 22 | **( 123,561,187 )** | ( 424,601,170 ) | ( 667,225,552 ) |
| Acquisitions of investment property | 12 | **( 77,166,676 )** | ( 284,516,709 ) | ( 24,889,187 ) |
| Acquisitions of property and equipment | 10 | **( 47,336,794 )** | ( 45,776,275 ) | ( 98,237,137 ) |
| Interest received | | **45,262,684** | 45,374,912 | 155,447,648 |
| Dividends received | 9 | **50,000,000** | 1,900,895 | - |
| Acquisition of a new subsidiary | 9 | **( 1,250,000 )** | ( 187,500 ) | ( 204,239,062 ) |
| Proceeds from disposal of property and equipment | 10 | **-** | 14,256 | 893,676 |
| Net Cash From (Used in) Investing Activities | | **290,475,807** | ( 669,749,636 ) | ( 673,790,094 ) |
| *Balance brought forward* | | **P 424,534,771** | ( P 38,793,267 ) | ( P 735,953,408 ) |

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| *Balance carried forward* | | **P 424,534,771** | ( P 38,793,267 ) | ( P 735,953,408 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from interest-bearing loans | 14, 30 | **2,000,000,000** | - | 2,000,000,000 |
| Repayments of interest-bearing loans | 30 | **( 1,461,538,462 )** | ( 961,538,461 ) | ( 596,153,846 ) |
| Interest paid | | **( 163,128,581 )** | ( 127,191,489 ) | - |
| Repayments of advances from related parties | 22 | **( 102,387,990 )** | ( 5,204,701 ) | ( 1,492,918 ) |
| Repayments of lease liabilities | 11 | **( 115,965,842 )** | - | - |
| Advances obtained from related parties | 22 | **5,731,148** | 103,005,496 | 31,504,105 |
| Net Cash From (Used in) Financing Activities | | **162,710,273** | ( 990,929,155 ) | 1,433,857,341 |
| **Effects of Exchange Rates Changes on Cash and Cash Equivalents** | | **( 3,055,197 )** | 2,055,689 | ( 3,978,328 ) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **584,189,847** | ( 1,027,666,733 ) | 693,925,605 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **1,329,849,615** | 2,357,516,348 | 1,663,590,743 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **P 1,914,039,462** | P 1,329,849,615 | P 2,357,516,348 |

**Supplemental Information on Non-cash Investing and Financing Activities:**

1) In the normal course of business, the Company enters into non-cash transactions such as exchanges or purchases on account of real estate and other assets. Other non-cash transactions include transfers of property from Inventories or Investment Property as the property goes through its various stages of development (see Note 2). These non-cash activities are not reflected in the statements of cash flows.

2) In 2019, the Company recognized right-of-use assets and lease liabilities amounting to P228.1 million and P610.3 million, respectively (see Note 2).

***See Notes to Financial Statements.***

**GLOBAL-ESTATE RESORTS, INC.**
***(A Subsidiary of Megaworld Corporation)***
**NOTES TO FINANCIAL STATEMENTS**
**DECEMBER 31, 2019, 2018 AND 2017**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

Global-Estate Resorts, Inc. (the Company or GERI) was incorporated in the Philippines on May 18, 1994. It is primarily engaged in the development of integrated tourism and leisure estates, and integrated lifestyle communities with residential, retail, hotel and/or leisure components. The Company also engages in land acquisitions and maintains an inventory of raw land for future development.

On July 26, 2017, the Philippine Securities and Exchange Commission (SEC) approved the change in the Company's registered office and principal place of business from 7th Floor, Renaissance Towers, Meralco Avenue, Pasig City to 16th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City. The related approval from the Bureau of Internal Revenue (BIR) was obtained on October 3, 2017.

The Company is a subsidiary of Megaworld Corporation (Megaworld or the parent company) with an ownership interest of 82.31%. Megaworld is 67.00% owned by Alliance Global Group, Inc. (AGI), the Company's ultimate parent company.

Megaworld was incorporated in the Philippines primarily to engage in the development of large scale, mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. Megaworld is presently engaged in property-related activities such as product design, construction and property management. Megaworld's real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office projects and retail spaces. The registered office of Megaworld, which is also its principal place of business, is located at the 30th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City.

AGI is a holding company with diversified investments in real estate, food and beverage, manufacturing, quick service restaurants, and tourism-oriented businesses. AGI's registered office, which is also its primary place of business, is located at the 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Quezon City.

The shares of stock of the Company, Megaworld and AGI are listed at the Philippine Stock Exchange.

## *1.1 Company's Subsidiaries and Associates*

The Company holds interests in the following subsidiaries and associates as of December 31, 2019, 2018 and 2017:

| Subsidiaries/Associates | Explanatory Notes | Percentage of Ownership 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| Fil-Estate Properties, Inc. (FEPI) | | **100%** | 100% | 100% |
| Aklan Holdings Inc. (AHI) | (a) | **100%** | 100% | 100% |
| Blu Sky Airways, Inc. (BSAI) | (a) | **100%** | 100% | 100% |
| Fil-Estate Subic Development Corp. (FESDC) | (a) | **100%** | 100% | 100% |
| Fil-Power Construction Equipment Leasing Corp. (FPCELC) | (a) | **100%** | 100% | 100% |
| Golden Sun Airways, Inc. (GSAI) | (a) | **100%** | 100% | 100% |
| La Compaña De Sta. Barbara, Inc. (LCSBI) | (a) | **100%** | 100% | 100% |
| MCX Corporation (MCX) | (a) | **100%** | 100% | 100% |
| Pioneer L-5 Realty Corp. (PLRC) | (a) | **100%** | 100% | 100% |
| Prime Airways, Inc. (PAI) | (a) | **100%** | 100% | 100% |
| Sto. Domingo Place Development Corp. (SDPDC) | (a) | **100%** | 100% | 100% |
| Fil-Power Concrete Blocks Corp. (FPCBC) | (a) | **100%** | 100% | 100% |
| Fil-Estate Industrial Park, Inc. (FEIPI) | (a) | **79%** | 79% | 79% |
| Sherwood Hills Development Inc. (SHDI) | (a) | **55%** | 55% | 55% |
| Fil-Estate Golf and Development, Inc. (FEGDI) | | **100%** | 100% | 100% |
| Golforce, Inc. (Golforce) | (b) | **100%** | 100% | 100% |
| Southwoods Ecocentrum Corp. (SWEC) | (b) | **60%** | 60% | 60% |
| Philippine Aquatic Leisure Corp. (PALC) | (c) | **60%** | 60% | 60% |
| Fil-Estate Urban Development Corp. (FEUDC) | | **100%** | 100% | 100% |
| Novo Sierra Holdings Corp. (NSHC) | | **100%** | 100% | 100% |
| Elite Communities Property Services, Inc. (ECPSI) | (d) | **100%** | 100% | - |
| Savoy Hotel Boracay, Inc. (SHB) | (e) | **100%** | - | - |
| Belmont Hotel Boracay, Inc. (BHB) | (e) | **100%** | - | - |
| Megaworld Global-Estate, Inc. (MGEI) | (f) | **60%** | 60% | 60% |
| Twin Lakes Corp. (TLC) | | **51%** | 51% | 51% |
| Twin Lakes Hotel, Inc. (TLHI) | (g) | **51%** | 51% | - |
| Oceanfront Properties, Inc. (OPI) | | **50%** | 50% | 50% |
| Global Homes and Communities, Inc. (GHCI) | | **100%** | 100% | 100% |
| Southwoods Mall, Inc. (SMI) | | **51%** | 51% | 51% |
| **Associates:** | | | | |
| Fil-Estate Realty Corp. (FERC) | | **20%** | 20% | 20% |
| Fil-Estate Network, Inc. (FENI) | | **20%** | 20% | 20% |
| Fil-Estate Sales, Inc. (FESI) | | **20%** | 20% | 20% |
| Fil-Estate Realty and Sales Associates Inc. (FERSAI) | | **20%** | 20% | 20% |
| Nasugbu Properties, Inc. (NPI) | (h) | **14%** | 14% | 14% |
| Boracay Newcoast Hotel Group, Inc. (BNHGI) | (h,i) | - | 15% | 15% |

Non-controlling interests (NCI) in 2019 and 2018 represent the interests not held by the Group in FEIPI, SHDI, SWEC, PALC, MGEI, TLC, TLHI, OPI and SMI.

All subsidiaries and associates were incorporated in the Philippines, operate within the country, and are engaged in businesses related to the main business of GERI.

**Explanatory notes:**

(a) Subsidiaries of FEPI; percentage ownership represents effective ownership of GERI.

(b) Subsidiaries of FEGDI; percentage ownership represents effective ownership of GERI.

(c) Subsidiary of SWEC.

(d) Subsidiary acquired in 2018. ECPSI is engaged primarily to manage and administer real estate properties.

(e) Subsidiaries incorporated in 2019. SHB and BHB are engaged primarily to operate and manage resort hotel.

(f) Subsidiary acquired in prior years primarily to market the Group's projects.

(g) A subsidiary of TLC. The Company is incorporated in 2018 to operate Twin Lakes Hotel, one of the real estate projects of TLC.

(h) Associate due to GERI's representation in the respective entities' board of directors.

(i) In 2019, FEPI fully sold its remaining ownership interest in BNHGI.

### *1.2 Approval of the Financial Statements*

The financial statements of the Company as of and for the year ended December 31, 2019 (including the comparative financial statements as of and for the years ended December 31, 2018 and 2017) were authorized for issue by the Company's Board of Directors (BOD) on April 3, 2020.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### *2.1 Basis of Preparation of Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

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

The Company presents a third statement of financial position as 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 statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

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

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

### 2.2 Adoption of New and Amended PFRS

(a) *Effective in 2019 that are Relevant to the Company*

The Company adopted for the first time the following PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

| | | |
|---|---|---|
| PAS 19 (Amendments) | : | Employee Benefits – Plan Amendment, Curtailment or Settlement |
| PAS 28 (Amendments) | : | Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures |
| PFRS 9 (Amendments) | : | Financial Instruments – Prepayment Features with Negative Compensation |
| PFRS 16 | : | Leases |
| International Financial Reporting Interpretations Committee (IFRIC) 23 | : | Uncertainty over Income Tax Treatments |
| Annual Improvements to PFRS (2015-2017 Cycle) | | |
| PAS 12 (Amendments) | : | Income Taxes – Tax Consequences of Dividends |
| PAS 23 (Amendments) | : | Borrowing Costs – Eligibility for Capitalization |
| PFRS 3 and PFRS 11 (Amendments) | : | Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation |

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

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Company's financial statements

(ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify 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, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The application of these amendments had no significant impact on the Company's financial statements.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income. The application of these amendments had no significant impact on the Company's financial statements.

(iv) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases, and its related interpretation*, IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures

The Company has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained Earnings for the current period. Accordingly, comparative information were not restated.

The new accounting policies of the Company as a lessee are disclosed in Note 2.14(a), while the accounting policies of the Company as a lessor, as described in Note 2.14(b), were not significantly affected.

The following are the relevant information arising from the Company's adoption of PFRS 16 and how the related accounts are measured and presented on the Company's financial statements as at January 1, 2019:

a. For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The Company's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7.85%.

c. The Company has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Company also elected to measure the right-of-use assets based on the carrying amount as if PFRS 16 had always been applied.

d. For leases previously accounted as operating leases with a remaining lease term of less than 12 months, the Company has applied the optional exemptions not to recognize right-of-use assets but to account for the lease expenses on a straight-line basis over the remaining lease term.

e. The Company has also used, as a practical expedient, the reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets, apart from those already mentioned above, as permitted by the standard. As at January 1, 2019, the Company has no onerous contracts.

f. The Company has accounted for as right-of-use asset the previously recognized development rights as it pertains to payment made at the commencement date of lease (see Notes 2.9 and 13). The related sublease previously accounted as operating lease under PAS 17 is now classified as finance lease under PFRS 16 since the sublease is co-terminus with the head lease term of 32 years. Accordingly, the effect of recognizing net investment in the sublease is presented as an adjustment to opening balance of retained earnings.

Relative to the adoption of PFRS 16 in the Philippines, the FRSC also approved the issuance of the following Philippine Interpretation Committee (PIC) Question and Answer (Q&A):

*(a)* *PIC Q&A No. 2019-09*, *Accounting for Prepaid Rent or Rent Liability Arising from Straight-lining under PAS 17, Leases, on Transition to PFRS 16 and the Related Deferred Tax Effects*, clarifies the accounting treatment for any existing prepaid rent or rent liability in transition from PAS 17 to PFRS 16 using the modified retrospective approach and the related deferred tax effects;

*(b)* *PIC Q&A 2019-11, Determining the Current Portion of an Amortizing Loan/Lease Liability*, clarifies the proper classification/presentation between current and non-current portion of amortizing loan/lease liability in the statement of financial position; and,

*(c)* *PIC Q&A 2019-12, Determining the Lease Term under PFRS 16, Leases,* clarifies the lease term upon consideration of an option to either extend or terminate the lease.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at January 1, 2019.

| | Notes | | Carrying Amount (PAS17) December 31, 2018 | | Remeasurement and Reclassification | | Carrying Amount (PFRS 16) January 1, 2019 |
|---|---|---|---|---|---|---|---|
| *Assets:* | | | | | | | |
| Right-of-use assets | c | P | - | P | 228,066,600 | P | 228,066,600 |
| Trade and other receivables – net | f | | 2,935,749,979 | | 669,354,394 | | 3,605,104,373 |
| Other non-current assets | f | | 265,076,899 | ( | 265,076,899 ) | | - |
| *Liabilities:* | | | | | | | |
| Lease liabilities: | | | | | | | |
| Current | b | | - | ( | 115,312,953 ) | ( | 115,312,953 ) |
| Noncurrent | b | | - | ( | 494,944,573 ) | ( | 494,944,573 ) |
| Other non-current liabilities | f | ( | 585,153,549 ) | | 265,076,899 | ( | 320,076,650 ) |
| Trade and other payables | | ( | 1,819,948,201 ) | | 74,156,760 | ( | 1,745,791,441 ) |
| Deferred tax liabilities | | ( | 839,909,641 ) | ( | 108,396,068 ) | ( | 948,305,749 ) |
| Impact on net assets | | | | P | 252,924,160 | | |

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

| | Notes | |
|---|---|---|
| Operating lease commitments, December 31, 2018 (PAS 17) | 25.2 | P 1,250,475,041 |
| Recognition exemptions: | | |
| Leases with remaining term of less than 12 months | 2.2(a)(iv)(d) | ( 32,129,030) |
| Operating lease liabilities before discounting | | 1,218,346,011 |
| Discount using incremental borrowing rate | 2.2(a)(iv)(b) | ( 608,088,485) |
| Lease liabilities, January 1, 2019 (PFRS 16) | | P 610,257,526 |

(v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This 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 Company 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 Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management assessed that the interpretation had no significant impact on the Company's financial statements.

(vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2019, are relevant to the Company but had no material effect on the Company's financial statements as the related amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends.* The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization.* The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.

- 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 Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

*(b) Effective Subsequent to 2019 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2019, 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 Company's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements,* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.

(ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

(iii) 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 or 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.

*(c)* SEC Memorandum Circular (MC) No. 04-2020, *Deferment of the Implementation of IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23) for Real Estate Industry* (IFRIC Agenda Decision).

The IFRIC concluded that any inventory (work-in-progress) for unsold units under construction that the entity recognizes is not a qualifying asset, as the asset is ready for its intended sale in its current condition - i.e., the developer intends to sell the partially constructed units as soon as it finds suitable customers and, on signing a contract with a customer, will transfer control of any work-in-progress relating to that unit to the customer. Accordingly, no borrowing costs can be capitalized on such unsold real estate inventories.

In relation to the above issues, the SEC, in its MC No. 04-2020, provided for the relief to the Real Estate Industry by deferring the implementation of the IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, real estate companies in the Philippines shall adopt the IFRIC interpretations and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. However, a real estate company may opt not to avail of the relief provided and instead comply in full with the requirements of the IFRIC interpretations.

The Company opted to avail of the relief provided by the SEC to defer the implementation of the IFRIC Agenda Decision until December 31, 2020. The Company's accounting policies with respect to capitalization of borrowing costs on real estate inventories under construction are disclosed in Notes 2.5 and 2.19.

Had the Company elected not to defer the IFRIC Agenda Decision, it would have the following impact in the financial statements:

- interest expense would have been higher;
- cost of real estate inventories would have been lower;
- total comprehensive income would have been lower;
- retained earnings would have been lower; and,
- the carrying amount of real estate inventories would have been lower.

*(d)* SEC MC No. 14 Series of 2018 and MC No. 3 Series of 2019

The SEC issued MC No. 14 in 2018 and MC No. 3 in 2019 which provided relief by deferral of the application on the following items for three years until calendar year ending December 31, 2020:

- Concept of the significant financing component in the contract to sell;

  PFRS 15, *Revenue from Contracts with Customers,* requires that in determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component.

- Treatment of land and uninstalled materials in the determination of percentage of completion (POC) (PIC Q&A No. 2018-12-E);

  Uninstalled materials delivered on-site such as steels and rebars, elevators and escalators, which are yet to be installed or attached to the main structure are excluded in the assessment of progress. Land shall also be excluded in the assessment.

- Accounting for common usage service area charges (PIC Q&A No. 2018-12-H); and,

  According to the consensus of the PIC Q&A No. 2018-12-H, the following should be considered by the role of a real estate developer in providing goods or services:

  (i) Electricity usage – Agent
  (ii) Water usage – Agent
  (iii) Air-conditioning charges – Principal
  (iv) Common use service area (CUSA) charges and administrative and handling fees – Principal

- Accounting for cancellation of real estate sales (PIC Q&A No. 2018-14).

  According to the consensus of the PIC Q&A No. 2018-14, repossessed inventory may initially be recognized at either costs or fair value plus repossession costs. Either approaches should be applied consistently.

The Company elected to defer the adoption of the accounting for the significant financing component in a contract to sell under PIC Q&A 2018-12 in accordance with MC No. 14 series of 2018 and the measurement of repossessed inventory at fair value under PIC Q&A 2018-14 in accordance with MC No. 3 series of 2019.

Had the Company elected not to defer the specific provisions, it would have the following impact in the consolidated financial statements:

- There would have been a significant financing component when there is a difference between the POC of the real estate project and the right to the consideration based on the payment schedule stated in the contract. The Company would have recognized an interest income when the POC of the real estate project is greater than the right to the consideration and interest expense when lesser. Both interest income and expense are calculated using the effective interest rate method. This will impact the retained earnings as at January 1, 2018 and real estate sales in 2018.

- There would have been an increase in the retained earnings balance as at January 1, 2018 and net profit in 2018 and 2019 as a result of the gain from repossession. This is because repossessed inventory would have been recorded at either fair value plus repossession costs or fair value less repossession costs. The Company currently records repossessed inventory at its carrying amount and recognize in profit or loss the difference between the carrying amount of the repossessed inventory and receivable.

### *2.3 Separate Financial Statements, Investments in Subsidiaries and Associates and Interests in Joint Operations*

These financial statements are prepared as the Company's separate financial statements. The Company also prepares consolidated financial statements which comprise the financial statements of the Company and its subsidiaries.

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

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.

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint arrangement.

The Company's investments in subsidiaries and associates are accounted for in these separate financial statements at cost, less any impairment loss. Impairment loss is provided when there is an objective evidence that the investments in subsidiaries and associates and interests in joint operations will not be recovered (see Note 2.16).

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 Company recognized in its 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 Company and are measured and recognized in accordance with the relevant financial reporting standards.

### *2.4 Financial Assets*

Financial assets are recognized when the company 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*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets currently applicable to the Company is financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (except for Value Added Tax (VAT) on contracts with customers, Advances to landowners and Advances to officers and employees), Advances to Joint Ventures, Advances to Related Parties and Refundable deposits (included as part of Prepayments under Prepayments and Other Current Assets).

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of comprehensive income as part of Finance Income.

*(b) Impairment of Financial Assets*

At the end of the reporting period, the Company assesses and recognizes allowance for ECL on its financial assets measured at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables, contract assets with significant financing component, and other financial assets carried at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Company also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Note 26.2(b)].

The Company applies a general approach specifically, in relation to advances to related parties. The maximum period over which ECL should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of these receivables from related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related parties' highly liquid assets in order to repay the Company's receivables if demanded at the reporting date taking into consideration the historical defaults of the related parties. If the Company cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of advances to related parties can be collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized.

For other financial assets at amortized cost, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The key elements used in the calculation of ECL are as follows:

- *Probability of Default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligations over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss Given Default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at Default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The Company recognizes an impairment loss in profit of loss for all financial assets subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

*(c) 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

### *2.5 Inventories*

Cost of real estate inventories includes acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of the property to the Company; related property development costs; and, borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Company (see Note 2.19). All costs relating to the real estate property sold are recognized as expense as the work to which they relate is performed.

Costs of real estate inventories 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 Company 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 inventory is charged to operations during the period in which the loss is determined.

Repossessed property arising from sales cancellation is recognized at cost. The difference between the carrying amount of the receivable or Contract Asset to be derecognized and the cost of the repossessed property is recognized in the statement of comprehensive income.

### *2.6 Prepayments and Other Assets*

Prepayments and other assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the 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.

Advances to contractors pertain to advance payments made by the Company for the construction of real estate properties intended for sale (i.e. held as inventory) and investment properties. This is classified as current asset if it will be applied as payments for construction of assets to be classified as inventories. Otherwise, this we be classified as non-current asset.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company 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, if any.

### *2.7 Property and Equipment*

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

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; while expenditures for repairs and maintenance are charged to expense as incurred.

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

| | |
|---|---|
| Office improvements | 10 years |
| Transportation equipment | 5 years |
| Office furniture and equipment | 3-5 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 (see Note 2.16).

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 the profit or loss in the period the item is derecognized.

### *2.8 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 for the building and improvements is computed on a straight-line basis over the estimated useful life of 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 2.16).

Transfers from other accounts (such as property and equipment or real estate inventory) are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party, while transfers from investment property are made when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use.

If an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under Property and Equipment account up to the date of change in use (see Note 2.7).

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 statement of comprehensive income in the year of retirement or disposal.

### *2.9 Development Rights*

Prior to adoption of PFRS 16 in 2019, development rights pertains to the acquired rights to develop land owned by the government over a period of 32 years (see Note 13). These 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 asset is considered finite. In addition, development rights are subject to impairment testing as described in Note 2.16.

Development rights, presented as Other Non-current Asset account in the statement of financial position, 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.

Due to the adoption of PFRS 16 in 2019, the development rights was reclassified to right-of-use asset as it pertains to payment made at the commencement date of lease.

### *2.10 Financial Liabilities*

Financial liabilities, which include Interest-bearing Loans, Trade and Other Payables (except tax-related liabilities), Advances from Related Parties, Lease Liabilities and Retention payable (presented under Other Non-current Liabilities account), are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest-related charges incurred on financial liabilities are recognized as an expense under the Finance Costs and Other Charges in the 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, except for capitalized borrowing cost, 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, Lease Liabilities and Other Non-Current Liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders, if any, are recognized as financial liabilities when the dividends are approved by the BOD.

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

Financial liabilities are derecognized from the 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.

### *2.11 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 statement of financial position when the Company 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 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.

### *2.12 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 obligation 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 financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company 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.

### *2.13 Revenue and Expense Recognition*

Revenue comprises revenue from sale of real properties, leasing activities, management and marketing income, interest income and dividends. The Company's leasing activities are accounted for under PFRS 16 (see Note 2.14).

To determine whether to recognize revenue, the Company follows a five-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligation;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and,
5. Recognizing revenue when/as performance obligations are satisfied.

The Company determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

a. the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
b. each party's rights regarding the goods or services to be transferred or performed can be identified;
c. the payment terms for the goods or services to be transferred or performed can be identified;
d. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
e. collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

The Company develops real properties such as developed land, house and lot, and condominium units. The Company often enters into contracts to sell real properties as they are being developed. The significant judgment used in determining the timing of satisfaction of the Company's performance obligation with respect to its contracts to sell real properties is disclosed in Note 3.1(b). Sales cancellations are accounted for on the year of forfeiture. Any gain or loss on cancellation is charged to profit or loss.

In addition, the following specific recognition criteria must also be met before revenue is recognized:

*(a)* *Real estate sales on pre-completed real estate properties* – Revenue from real estate sales is recognized over time proportionate to the progress of the development. The Company measures its progress based on actual costs incurred relative to the total expected costs to be incurred in completing the development. Revenue recognized from real estate sales is presented as part of Real Estate Sales in the statement of comprehensive income.

*(b)* *Real estate sales on completed real estate properties* – Revenue from real estate sales is recognized at point in time when the control over the real estate property is transferred to the buyer. Revenue recognized from real estate sales is presented as part of Real Estate Sales in the statement of comprehensive income.

For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from real estate sales is used by the Company.

*(b)* *Management and marketing income* – recognized over time in the same amount to which the entity has the right of invoice to the customer. Any amounts remaining unbilled at the end of the reporting period are presented in the statement of financial position as receivables as only the passage of time is required before payment of these amounts will be due.

Incremental costs of obtaining a contract to sell real property to customers are recognized as part of Prepayments and Other Current Assets and is subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized. Costs and expenses (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 (see Note 2.19).

Contract assets pertain to rights to consideration in exchange for goods or services that the Company has transferred to a customer that is conditioned on something other than passage of time. Under its contracts with customers, the Company will receive an unconditional right to payment for the total consideration upon the completion of the development of the property sold. Any right to consideration recognized by the Company as it develops the property are presented as Contract Assets in the statement of financial position. Contract assets are subsequently tested for impairment in the same manner as the Company assesses impairment of its financial assets [see Note 2.4(b)].

Any consideration received by the Company in excess of the amount for which the Company is entitled is presented as Contract Liabilities in the statement of financial position. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

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 buyers are presented under the Customers' Deposits account in the liabilities section of the statement of financial position.

### *2.14 Operating Leases*

The Company accounts for its leases as follows:

*(a) Company as Lessee*

*(i) Accounting for Leases in Accordance with PFRS 16 (2019)*

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations enumerated below which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.16).

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from property and equipment and other liabilities, respectively.

*(ii) Accounting for Leases in Accordance with PAS 17 (2018)*

Leases which do not transfer to the Company 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.

The Company 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.

*(b) Company as Lessor*

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Company's net investment outstanding in respect of the finance lease.

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.

Sublease which was previously classified as operating lease applying PAS 17 but finance lease applying PFRS 16 is accounted as a new finance lease entered into at the date of initial application of PFRS 16. The effect of recognizing the net investment in the sublease is recognized as adjustment to the opening balance of retained earnings.

### *2.15 Foreign Currency Transactions and Translation*

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the period 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

### *2.16 Impairment of Non-financial Assets*

The Company's investments in subsidiaries and associates, property and equipment, investment property, development rights (in 2018), right-of-use assets and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets 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 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 Company'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.

## 2.17 Employee Benefits

The Company'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 Company, even if plan assets for funding the defined benefit plan have been acquired. The Company's defined benefit post-employment plan covers all regular full-time employees.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds, using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

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 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, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or benefit payments. Net interest is reported as part of Finance Costs and Other Charges or Finance Income account in the 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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, *Provisions, Contingent Liabilities and Contingent Assets*, 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 the reporting period. They are included in the Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

### *2.18 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 of options that ultimately vest on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of the 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).

### *2.19 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 Inventories 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 all such activities are substantially 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.

### *2.20 Income Taxes*

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

Current tax assets or current tax 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. They 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 period. 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 the 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, if any, 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 deferred tax 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 deferred tax assets reflects the tax consequences that would follow from the manner in which the Company 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 deferred tax 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 Company 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.

### *2.21 Related Party Transactions and Relationships*

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

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

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

Based on the requirement of SEC MC 2019-60, *Rules of Material Related Party Transactions for Publicly Listed Companies*, transactions amounting to 10% or more of the total consolidated assets based on the latest audited consolidated financial statements that were entered into with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the board of directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent director's vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of ten percent (10%) if the Group's total assets based on the latest audited consolidated financial statements, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

### *2.22 Equity*

Capital stock represents using 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 pertain to remeasurements of retirement benefit obligation.

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

### *2.23 Basic and Diluted Earnings per Share*

Basic earnings per share (EPS) is computed by dividing 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 Company's potentially dilutive shares consist only of share options (see Notes 23.2 and 24).

### *2.24 Events After the End of the Reporting Period*

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

In the process of applying the Company's accounting policies, management has made the judgments discussed in the succeeding pages, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

*(a) Determination of Lease Term of Contracts with Renewal and Termination Options (2019)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

The Company determines whether any non-cancellable period or notice period in a lease would meet the definition of a contract and thus, would be included as part of the lease term. A contract would be considered to exist only when it creates rights and obligations that are enforceable.

In assessing the enforceability of a contract, the Company considers whether the lessor can refuse to agree to a request from the Company to extend the lease. In contrast, a lessor's right to terminate a lease is ignored when determining the lease term because, in that case, the lessee has an unconditional obligation to pay for the right to use the asset for the period of the lease, unless and until the lessor decides to terminate the lease.

*(b) Evaluation of the Timing of Satisfaction of Performance Obligations*

*(i) Real Estate Sales*

The Company exercises critical judgment in determining whether each performance obligation to develop properties promised in its contracts with customers is satisfied over time or at a point in time. In making this judgment, the Company considers the following:

- any asset created or enhanced as the Company performs;
- the ability of the customer to control such asset as it is being created or enhanced;
- the timing of receipt and consumption of benefits by the customer; and,
- the Company's enforceable right for payment for performance completed to date.

The Company determined that its performance obligation is satisfied over time since it does not have an alternative use of the specific property sold as it is precluded by its contract from redirecting the use of the property for a different purpose. Further, the Company has rights over payment for development completed to date as the Company can choose to complete the development and enforce its rights to full payment under its contracts even if the customer defaults on amortization payments. On the other hand, performance obligation for completed real estate properties is satisfied at a point in time when the control over the real estate property is transferred to the buyer.

(*ii*) *Management and Marketing Income*

The Company determined that revenues from marketing and management services shall be recognized over time as the customers simultaneously receive and consume the benefits of the Company's rendering of services as it performs. The Company provides the services without the need of reperformance of other companies and it has an enforceable right for payment for performance completed to date.

*(c) Determination of ECL on Trade and Other Receivables, Advances to Related Parties and Contract Assets*

The Company uses a provision matrix to calculate ECL for trade and other receivables, advances to relate parties and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's trade and other receivables are disclosed in Note 26.2(b).

In relation to advances to related parties, the maximum period over which ECL should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of these receivables from related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related parties' highly liquid assets in order to repay the Company's receivables if demanded at the reporting date taking into consideration the historical defaults of the related parties. If the Company cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of receivables can be collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized.

Based on the relevant facts and circumstances existing at the reporting date, management has assessed that all strategies indicate that the Company can fully recover the outstanding balance of its receivables.

*(d) Distinction Between Investment Property and Owner-managed Properties*

The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the operations of the Company or for administrative purposes.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Company accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment.

*(e) Distinction Between Real Estate Inventories and Investment Properties*

Residential and condominium units comprise properties that are held for sale in the ordinary course of business. Meanwhile, investment properties comprise of land and buildings which are not occupied substantially for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. The Company considers management's intention over these assets in making its judgment.

*(f) Determination of Significant Influence over Entities in which the Group Holds Less than 20% Ownership*

The Company determines whether significant influence exists over an investee company over which the Company holds less than 20% of the investee's capital stock. The Company considers the ability to influence the operating and financial policies of the investee, representation on the board of directors of the investee and routine participation in management decisions in making its judgment. Based on management's judgment, the Company has significant influence over these investee companies (see Note 1).

*(g) Investment in Subsidiaries in which the Company Holds 50% or Less*

Management considers that the Company has de facto control over OPI even though it does not hold more than 50% of the ordinary shares and voting rights of the said subsidiaries, due to the factors discussed below.

The Company holds 50% direct ownership interest over OPI and has: (1) the ability to direct the relevant activities of the subsidiaries; (2) the rights to variable returns from its involvement with subsidiaries; and, (3) the ability to use its power to affect its returns from its involvement with subsidiaries. Based on management's judgment, the Company has control over OPI.

*(h) Cash and Cash Equivalents Managed by Another Party*

Portion of the Company's cash and cash equivalents is being managed by a related party [see Notes 4 and 22.7(c)]. The funds may only be disbursed pursuant to the Company's instructions and the related party is not entitled to the fund's interest or other income. As the Company has control over the funds and is directly entitled to the fund's benefits, management determined that the said funds appropriately form part of the Company's cash and cash equivalents.

*(i) Distinction Between Operating and Finance Leases*

The Company has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

In 2019, upon adoption of PFRS 16, the distinction between operating and finance leases is applicable only to lease agreements as a lessor. All leases entered into as a lessee, except for those qualified under the optional exemptions as provided by the standard, are required to be recognized on-balance sheet.

*(j) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Note 25.

### *3.2 Key Sources of Estimation Uncertainty*

Discussed below and in the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

*(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)*

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using the effective interest rate on the most recent loan. Since the date of the availment is near the initial date of application, management is satisfied that the selected rate reflects the risks specific to the Company.

*(b) Revenue Recognition for Performance Obligations Satisfied Over Time*

In determining the amount of revenue to be recognized for performance obligations satisfied over time, the Company measures progress on the basis of actual costs incurred relative to the total expected costs to complete such performance obligation. Specifically, the Company estimates the total development costs with reference to the project development plan and any agreement with customers. Management regularly monitors its estimates and apply changes as necessary. A significant change in estimated costs would result in a significant change in the amount of revenue recognized in the year of change.

*(c) Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 26.2.

*(d) Determination of the Amount of Costs Incurred to Obtain or Fulfill a Contract with a Customer*

In determining the amount of costs to obtain a contract that should be capitalized, the Company identifies those costs which would not have been incurred if the contract had not been obtained.

For the costs incurred in fulfilling a contract, the Company recognizes an asset only if those costs related directly to a contract or to an anticipated contract can be specifically identified; those costs generate or enhance the Company's resources that will be used in satisfying performance obligation in the future; and the Company expects those costs to be recovered.

*(e) Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The future realization of the carrying amounts of these assets is affected by price changes in the different market segments as well as the trends in the real estate industry. These are considered key sources of estimation and uncertainty and may cause significant adjustments to the Company's inventories within the next reporting period.

Considering the Company's pricing policy, the net realizable values inventories are higher than their related carrying values as of the end of the reporting periods.

*(f) Fair Value of Stock Option*

The Company estimates the fair value of the executive stock option by applying an option valuation model, taking into account the terms and conditions on which the executive stock options were granted. The estimates and assumptions used are presented in Note 23.2, which include, among other factors, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the Company's share price and fair value of the Company's common shares. Changes in these factors can affect the fair value of stock options at grant date.

*(g) Estimation of Useful Lives of Property and Equipment, Right-of-use Assets, Investment Property and Development Rights*

The Company estimates the useful lives of property and equipment, right-of-use assets, investment property and development rights (prior to the adoption of PFRS 16) based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, right-of-use assets, investment property and development rights are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment, right-of-use assets, investment property and development rights (prior to the adoption of PFRS 16) are analyzed in Notes 10, 11, 12 and 13, respectively. Based on management's assessment as at December 31, 2019 and 2018, there are no changes in the estimated useful lives of those assets as of the end of the reporting periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(h) Fair Value Measurement of Investment Property*

Investment property is measured using the cost model. For disclosure purposes, the Company determines the fair values of building and building improvements using the discounted cash flows valuation technique since the information on current or recent prices of assumptions underlying the discounted cash flow approach of investment property is not available. The Company uses assumptions that are mainly based on market conditions existing at the end of each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Company and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

For land, the Company determines the fair value through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property.

A significant change in these elements may affect prices and the value of the assets. The fair value of investment properties is disclosed in Note 12 and 28.3.

*(i) Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2019 and 2018 will be fully utilized within the prescribed period of availment. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

*(j) Impairment of Nonfinancial Assets*

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

In 2018, certain investments in associates were found to be impaired, hence, the related carrying amounts were written off (see Note 9). No impairment losses were recognized on property and equipment, right-of-use assets, investment property, development rights (prior to the adoption of PFRS 16), and other non-financial assets for the years ended December 31, 2019, 2018 and 2017 (see Notes 10, 11, 12 and 13).

*(k) Valuation of Post-employment Defined Benefit Obligation*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the retirement benefit obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 20.2.

*(l) Basis for Revenue Recognition Benchmark*

The Company recognizes its revenue from sale of real estate in full when 10% or more of the total contract price is received. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Company's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Company has ascertained the buyer's commitment to complete the payment of the total contract price.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at December 31:

| | Note | **2019** | 2018 |
|---|---|---|---|
| Cash on hand and in banks | 22.7(c) | **P 924,039,462** | P 780,529,963 |
| Short-term placements | | **990,000,000** | 549,319,652 |
| | | **P 1,914,039,462** | P 1,329,849,615 |

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made between 16 to 61 days at prevailing market interest rates and earn effective interest up to 2.25% per annum in 2019 and 2018.

Interest income earned from cash in banks and short-term placements is included as part of Finance Income account in the statements of comprehensive income (see Note 19.1).

## 5. TRADE AND OTHER RECEIVABLES

This account is composed of the following as at December 31:

| | Notes | **2019** | 2018 |
|---|---|---|---|
| Current: | | | |
| Installment contracts receivable | | **P3,124,574,729** | P 1,894,352,453 |
| VAT on contracts with customers | | **500,216,323** | 363,008,719 |
| Advances to officers and employees | 22.4 | **164,035,960** | 146,129,016 |
| Rental receivables | 22.2 | **139,618,860** | 111,945,456 |
| Finance lease receivable | 13 | **86,786,949** | - |
| Unearned interest | | **( 68,704,884)** | ( 21,392,446) |
| Marketing and management fee receivable | 22.3 | **64,116,215** | 60,109,633 |
| Interest receivable | 22.4 | **35,187,014** | 31,488,957 |
| Advances to landowners | | **19,636,327** | 19,636,327 |
| Others | | **23,101,221** | 15,076,313 |
| | | **4,088,568,714** | 2,620,354,428 |
| Non-current: | | | |
| Installment contracts receivable | | **1,477,637,195** | 321,663,766 |
| Finance lease receivable | 13 | **585,969,480** | - |
| VAT on contracts with customers | | **82,890,535** | 17,359,680 |
| Unearned interest | | **( 60,407,683)** | ( 23,627,895) |
| | | **2,086,089,527** | 315,395,551 |
| | | **P6,174,658,241** | P 2,935,749,979 |

Installment contracts receivables represent receivables from sale of real estate and resort shares for sale and normally collectible monthly within one to five years. The titles to the assets sold remain with the Company until such receivables are fully collected.

Installment contracts receivables are noninterest-bearing and are measured at amortized cost using the effective interest method based on the interest rate of comparable financial instruments in the market. Interest income from amortization amounted to P26.4 million, P15.2 million, and P5.0 million for the years ended December 31, 2019, 2018 and 2017, respectively, and is presented as part of Finance income account in the statements of comprehensive income (see Note 19.1).

Meanwhile, the related day-one loss on the discounting of the non-current portion of installment contracts receivables amounting to P110.5 million, P39.0 million and P20.0 million for the years ended December 31, 2019, 2018 and 2017, respectively, is presented as Day one loss under Finance Costs and Other Charges account in the statements of comprehensive income (see Note 19.2).

VAT on contracts with customers represents the VAT component of the contract price of real estate sales to the extent recognized either as installment contract receivables or contract assets.

Advances to officers and employees are noninterest-bearing, unsecured and collectible through salary deduction or liquidation.

Advances to landowners represent advances to several real estate property owners and charges in connection with various project agreements entered into by the Company.

All of the Company's trade and other receivables have been reviewed for impairment. Management considers that all of its trade and other receivables are fully recoverable; hence, no impairment losses were recognized in 2019, 2018 and 2017. This assessment is undertaken each financial year using simplified approach in measuring ECL as fully disclosed in Note 26.2.

## 6. INVENTORIES

Inventories at the end of 2019 and 2018 were stated at cost. The composition of this account as at December 31 is shown below.

| | **2019** | 2018 |
|---|---|---|
| Real estate for sale | **P2,854,462,428** | P2,898,052,183 |
| Raw land inventory | **683,192,084** | 819,962,007 |
| Property development cost | **863,390,310** | 615,251,850 |
| Resort shares for sale | **41,626,745** | 41,626,745 |
| | **P4,442,671,567** | P4,374,892,785 |

Real estate for sale pertains to accumulated costs incurred, including capitalized borrowing costs amounting to P123.1 million and P123.2 million in 2019 and 2018, respectively, in developing the Company's horizontal and condominium projects and certain integrated-tourism projects in Boracay, and residential subdivision lots in Iloilo, Philippines. The aforementioned interest was incurred in relation to the interest-bearing loans obtained in 2016 and 2015 which were obtained specifically to finance the construction of certain projects. The capitalization rate averaged 6.18% and 6.01% in 2019 and 2018, respectively (see Note 14).

Raw land inventory pertains to 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 Company.

Property development costs include on-going costs incurred by the Company for its own projects. In addition, this account also includes the costs incurred by the Company for the joint development of various projects that are treated as jointly controlled operations; there were no separate entities created by these joint venture agreements. The jointly controlled operations are undertaken under project agreements with different venture partners. The costs relating to these joint projects represent the amount of investments placed by the Company as original investor/developer or the amount assigned/transferred to the Company by associates or by related parties who were the original investors/developers in the project agreement.

In 2019, the Company reclassified property development cost and real estate for sale with a total carrying amount of P702.9 million to investment property as such properties are held to earn rentals and/or for capital appreciation (see Note 12).

Resort shares for sale comprise of proprietary or membership shares (landowner shares and founders shares) in Fairways & Bluewaters in Boracay, Philippines that are of various types and costs. The cost of the landowner shares is based on the acquisition and development costs of the land and the project. The cost of the founders shares is based on the par value of the resort shares which is P100.

Management assessed that the net realizable values of inventories are higher than their related costs. Hence, no impairment losses are required to be recognized in 2019, 2018 and 2017.

## 7. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account is shown below.

| | Notes | **2019** | 2018 |
|---|---|---|---|
| Advances to contractors and suppliers | | **P 835,208,759** | P 544,839,328 |
| Prepayments | 22.2 | **125,562,446** | 103,298,176 |
| Deferred commission | 17.3 | **87,713,656** | 113,356,778 |
| Deferred creditable withholding tax | | **9,398,178** | 8,941,792 |
| Input tax | 32(b) | **-** | 60,359,592 |
| | | **P1,057,883,039** | P 830,795,666 |

Advances to contractors and suppliers are noninterest-bearing and pertain to down payments for services to be rendered and goods to be delivered to the Company for the development of real estate projects.

Deferred commission represents incremental costs of obtaining a contract to sell real estate properties to customers. This is subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized.

## 8. ADVANCES TO JOINT VENTURES

This account pertains to payments made by the Company for different costs and expenses related to its Alabang West, Pahara @ Southwoods and Holland Park projects which should have been shouldered by its joint venturers. The terms of the agreement provide that the Company shall undertakes the development and subdivision of the properties. The agreements further stipulate that the Company and the joint venturers shall share in the project's income and expenses using certain pre-agreed sharing ratios. Collections of the receivable from the joint venturers are generally received upon sale of their share in the projects.

The joint venturers related to the Alabang West, Pahara @ Southwoods and Holland Park projects were charged marketing fees in 2019, 2018 and 2017 amounting to P163.4 million, P186.0 million and P61.3 million, respectively, which is included as part of the Management and Marketing Income account in the statements of comprehensive income.

The net commitment for construction expenditures of the Company amounted to:

| | |
|---|---|
| Total commitment for construction expenditures | P 2,288,420,002 |
| Total expenditures incurred | ( 1,540,245,109) |
| Net commitment | **P 748,174,893** |

The Company's interests on these jointly-controlled projects range from 50% to 85% both in 2019 and 2018.

As at December 31, 2019 and 2018, the Company has no other contingent liabilities with regard to this JV and has assessed that the probability of loss that may arise from contingent liabilities is remote.

The advances have been analysed for ECL. Based on management's evaluation, no impairment loss needs to be recognized in 2019 and 2018.

## 9. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The components of the investments in subsidiaries and associates accounted for under the cost method as at December 31 is shown below:

| | **2019** | 2018 |
|---|---|---|
| Subsidiaries: | | |
| TLC | **P 3,108,677,149** | P3,108,677,149 |
| SMI | **697,318,750** | 697,318,750 |
| FEGDI | **250,000,000** | 250,000,000 |
| FEUDC | **196,342,170** | 196,342,170 |
| SWEC | **125,000,000** | 125,000,000 |
| GHCI | **31,250,005** | 31,250,005 |
| FEPI | **25,000,000** | 25,000,000 |
| MGEI | **7,500,000** | 7,500,000 |
| OPI | **3,125,225** | 3,125,225 |
| SHB | **625,000** | - |
| BHB | **625,000** | - |
| ECPSI | **187,500** | 187,500 |
| NSHC | **62,500** | 62,500 |
| | **P 4,445,713,299** | P4,444,463,299 |

The place of incorporation of the Company's subsidiaries and associates are summarized below.

*(a)* TLC, SMI, FEGDI, SWEC, FEUDC, GHCI, FEPI, MGEI, NSHC, FESI – Renaissance Towers, Meralco Avenue, Pasig City;
*(b)* OPI – F&M Lopez II Building, 109 C. Palanca St., Legaspi Village, Makati City;
*(c)* FERC, FENI, FERSAI – Paragon Plaza, Reliance St., Mandaluyong City;
*(d)* ECPSI – 7th Floor, Paseo Center Building, 8757 Paseo de Roxas St., Makati City
*(e)* SHB, BHB – Brgy. Yapak, Boracay Island, Malay, Aklan 5608

In 2019, SHB and BHB were incorporated to operate and manage resort hotels.

In 2018, the Company fully impaired its investments to FERC, FENI, FESI and FERSAI. The carrying amount of the investments amounting to P49.8 million is recognized as impairment loss and is presented under Finance Costs and Other Charges account in the 2018 statement of comprehensive income (see Note 19.2).

Management considers that the Company has de facto control over OPI even though its direct ownership interest is not more than 50% of the ordinary shares and voting rights of the said subsidiary due to the factors mentioned in Note 3.1(g).

Based on management's assessment, aside from the investment written off in 2018, the Company's investments in subsidiaries and associates are not impaired due to the active efforts of the Company to fund the operations of its subsidiaries and associates to push through with their respective projects.

In 2019, the Company received cash dividends from OPI amounting to P50.0 million presented as part of Others under Revenues in the 2019 statement of comprehensive income. There was no noted similar transaction in 2018 and 2017.

## 10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of the reporting periods are shown below.

| | Transportation Equipment | Office Furniture and Equipment | Office Improvements | Total |
|---|---|---|---|---|
| December 31, 2019 | | | | |
| Cost | P 66,853,378 | P 127,444,195 | P 98,888,705 | P 293,186,278 |
| Accumulated depreciation and amortization | ( 45,184,142) | ( 77,869,095) | ( 30,568,470) | ( 153,621,707) |
| Net Carrying amount | **P 21,669,236** | **P 49,575,100** | **P 68,320,235** | **P 139,564,571** |
| December 31, 2018 | | | | |
| Cost | P 56,536,888 | P 94,869,380 | P 94,443,216 | P 245,849,484 |
| Accumulated depreciation and amortization | ( 36,835,889) | ( 57,888,355) | ( 20,904,628) | ( 115,628,872) |
| Net Carrying amount | P 19,700,999 | P 36,981,025 | P 73,538,588 | P 130,220,612 |
| January 1, 2018 | | | | |
| Cost | P 43,716,510 | P 67,811,923 | P 88,587,544 | P 200,115,977 |
| Accumulated depreciation and amortization | ( 29,771,858) | ( 46,443,165) | ( 11,385,364) | ( 87,600,387) |
| Net Carrying amount | P 13,944,652 | P 21,368,758 | P 77,202,180 | P 112,515,590 |

A reconciliation of the carrying amounts of property and equipment at the beginning and end the reporting periods is shown in the succeeding page.

| | Transportation Equipment | Office Furniture and Equipment | Office Improvements | Total |
|---|---|---|---|---|
| Balance at January 1, 2019 net of accumulated depreciation and amortization | P 19,700,999 | P 36,981,025 | P 73,538,588 | P 130,220,612 |
| Additions | 10,316,490 | 32,574,815 | 4,445,489 | 47,336,794 |
| Depreciation and amortization charges for the year | ( 8,348,253 ) | ( 19,980,740 ) | ( 9,663,842 ) | ( 37,992,835 ) |
| Balance at December 31, 2019 net of accumulated depreciation and amortization | **P 21,669,236** | **P 49,575,100** | **P 68,320,235** | **P 139,564,571** |
| Balance at January 1, 2018 net of accumulated depreciation and amortization | P 13,944,652 | P 21,368,758 | P 77,202,180 | P 112,515,590 |
| Additions | 12,820,378 | 27,100,225 | 5,855,672 | 45,776,275 |
| Disposals | | ( 14,256 ) | | ( 14,256 ) |
| Depreciation and amortization charges for the year | ( 7,064,031 ) | ( 11,473,702 ) | ( 9,519,264 ) | ( 28,056,997 ) |
| Balance at December 31, 2018 net of accumulated depreciation and amortization | P 19,700,999 | P 36,981,025 | P 73,538,588 | P 130,220,612 |

Depreciation and amortization of property and equipment is presented as part of Depreciation and amortization under Other Operating Expenses account in the statement of comprehensive income (see Note 18).

The Company's fully depreciated assets that are still being used in operations has a total original cost of P70.5 million and P60.8 million as at December 31, 2019 and 2018, respectively.

## 11. LEASES

The Company has leases for certain offices and commercial lot. With the exception of short-term leases, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over offices, the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognized in the statement of financial position.

| | Number right-of-use assets leased | Range of remaining term | Average remaining lease term | Number of leases with extension options | Number of leases with termination options |
|---|---|---|---|---|---|
| Offices | 2 | 3 - 14 years | 14 years | 2 | 2 |
| Commercial lot | 1 | 28 years | 28 years | 1 | 1 |

### 11.1 Right-of-use Assets

The carrying amounts of the Company's right-of-use assets as at December 31, 2019 and the movements during the period are shown below.

| | Offices | Commercial Lot | Total |
|---|---|---|---|
| Balance at beginning of year | P 202,411,637 | P 25,654,963 | P 228,066,600 |
| Depreciation and amortization | ( 57,826,083) | ( 1,368,265) | ( 59,194,348) |
| Balance at end of year | **P 144,585,554** | **P 24,286,698** | **P 168,872,252** |

### 11.2 Lease Liabilities

Lease liabilities are presented in the statement of financial position as at December 31, 2019 as follows:

| | |
|---|---|
| Current | P 64,456,834 |
| Non-current | 429,834,850 |
| | **P494,291,684** |

The use of extension and termination options gives the Company added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Company's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows:

| | Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| Lease payment | P 101,225,384 | P 100,623,729 | P 40,350,217 | P 30,297,584 | P 30,360,082 | P777,489,229 | P1,080,346,225 |
| Finance charges | ( 36,768,550) | ( 31,756,675 ) | ( 27,642,703 ) | ( 27,237,319) | ( 26,967,596) | ( 435,681,698) | ( 586,054,541 ) |
| Net present value | **P 64,456,834** | **P 68,867,054** | **P 12,707,514** | **P 3,060,265** | **P 3,392,486** | **P341,807,531** | **P 494,291,684** |

### 11.3 Lease Payments Not Recognized as Liabilities

The Company has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis.

The expenses related to short-term leases amounted to P32.1 million and is presented as part of Other Operating Expenses account in the 2019 statement of comprehensive income (see Note 18).

At December 31, 2019, the Company is committed to short-term leases, and the total commitment at that date is P5.6 million.

### 11.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P116.0 million in 2019. Interest expense in relation to lease liabilities amounted to P35.9 million and is presented as part of Finance Costs and Other Charges in the 2019 statement of comprehensive income (see Note 19.2).

## 12. INVESTMENT PROPERTY

The Company's investment property is comprised of various buildings held for lease and several parcels of land which are owned to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation and amortization of investment property at the beginning and end of the reporting periods are shown below.

| | Land | Buildings and Improvements | Total |
|---|---|---|---|
| December 31, 2019 | | | |
| Cost | P 1,015,686,057 | P 1,039,148,553 | P 2,054,834,610 |
| Accumulated depreciation And amortization | - | ( 164,093,977) | ( 164,093,977) |
| | **P 1,015,686,057** | **P 875,054,576** | **P 1,890,740,633** |
| December 31, 2018 | | | |
| Cost | P 938,519,381 | P 336,235,833 | P 1,274,755,214 |
| Accumulated depreciation And amortization | - | ( 123,826,925) | ( 123,826,925) |
| | P 938,519,381 | P 212,408,908 | P 1,150,928,289 |
| January 1, 2018 | | | |
| Cost | P 654,002,672 | P 336,235,833 | P 990,238,505 |
| Accumulated depreciation and amortization | - | ( 113,928,009) | ( 113,928,009) |
| | P 654,002,672 | P 222,307,824 | P 876,310,496 |

A reconciliation of the carrying amounts of investment property at the beginning and end of the reporting period is shown below and in the succeeding page.

| | Land | Building and Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2019, net of accumulated depreciation and amortization | P 938,519,381 | P 212,408,908 | P 1,150,928,289 |
| Additions | 77,166,676 | - | 77,166,676 |
| Reclassifications | - | 702,912,720 | 702,912,720 |
| Depreciation and amortization charges for the year | - | ( 40,267,052) | ( 40,267,052) |
| Balance at December 31, 2019, net of accumulated depreciation and amortization | **P 1,015,686,057** | **P 875,054,576** | **P 1,890,740,633** |

| | Land | Building and Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2018, net of accumulated depreciation and amortization | P 654,002,672 | P 222,307,824 | P 876,310,496 |
| Additions | 284,516,709 | - | 284,516,709 |
| Depreciation and amortization charges for the year | - | ( 9,898,916) | ( 9,898,916) |
| Balance at December 31, 2018, net of accumulated depreciation and amortization | P 938,519,381 | P 212,408,908 | P 1,150,928,289 |

Rental income recognized in 2019, 2018 and 2017 amounted to P103.3 million, P69.6 million and P36.3 million, respectively, and is presented as part of Rental Income account in the statements of comprehensive income. Depreciation charges represent the major direct costs in leasing these properties (see Note 18). Other operating costs in leasing these properties include Real property taxes amounting to P1.9 million, P2.1 million and P1.9 million and Repairs and maintenance amounting to P196,429, P58,036 and P34,200 in 2019, 2018 and 2017, respectively. Real property taxes is included as part of Taxes and licenses while Repairs and maintenance is included as part of Miscellaneous both under Other Operating Expenses account in the statements of comprehensive income (see Note 18).

Except for land, all of the Company's investment properties generated rental income for the years ended December 31, 2019, 2018 and 2017.

Based on management's estimate, the fair value of the Company's property building and improvements amounted to P2.6 billion and P7.6 billion as determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate of 5% and 10% as at December 31, 2019 and 2018, respectively.

On the other hand, the fair value of land amounted to P7.3 billion and P7.2 billion as determined through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property as at December 31, 2019 and 2018, respectively.

Other information about the fair value measurement and disclosures related to the investment property are presented in Note 28.3.

## 13. OTHER NON-CURRENT ASSET

On October 29, 2015, the Company acquired development rights over 10,994.86 sq.m. undivided portions of land (the Subject Premises) owned by a government entity located in Quezon City for a period of 32 years.

North Triangle Depot Commercial Corporation (NTDCC), a third party, has offered to lease the development rights from the Company on October 29, 2015 up to the expiration of the development rights. As part of the consideration of the lease between the Company and NTDCC, the NTDCC shall reimburse the Company for the accumulated development rights payments related to the Subject Premises in the amount of P294.4 million. As a result, the Company recognized Development rights and Advance rental of the same amount to be amortized over the term of the lease of 32 years and are presented as Other Non-current Asset account and as part of Other Non-current Liabilities account, respectively, in the statements of financial position (see Note 16). In addition to the advance rental, NTDCC is also obliged to pay annual rent to the Company amounting to P62.5 million starting on the third anniversary of the lease up to 2025.

Amortization expense related to the development rights amounted to P9.2 million in 2018 and 2017, and is included as part of Cost of Rentals account (see Note 18) while the rental income arising from this transaction amounted to P46.9 million in 2018, and 2017, and is included as part of Rental Income account in the 2018 and 2017 statements of comprehensive income. Rental receivable recognized from the aforementioned transactions amounted to P57.7 million as of December 31, 2018 and is presented as part of Rental receivables under the Trade and Other Receivables account in the 2018 statement of financial position (see Note 5). The outstanding balance as of January 1, 2019 was reclassified to Lease receivable as a result of the transaction mentioned above.

On January 1, 2019, due to the adoption of PFRS 16, the development rights was reclassified to right-of-use asset. In addition, the sublease with NTDCC which was previously accounted as an operating lease has qualified as a finance lease. This was accounted as a new finance lease at the date of initial application. As a result, the Company recognized finance lease receivable amounting to P669.3 million. Accordingly, the carrying amount of the advance rental received from NTDCC amounting to P265.1 million was derecognized. The effect of recognizing net investment in the sublease was presented as an adjustment to opening balance of retained earnings [see Notes 2.2(iv)(f)].

The carrying amount of finance lease receivable as of December 31, 2019 is presented as part of Trade and Other Receivables (see Note 5). Interest income on the finance lease amounted to P44.3 million presented as part of Finance Income in the 2019 statement of comprehensive income (see Note 19.1).

## 14. INTEREST-BEARING LOANS

The Company's interest-bearing loans are broken down as follows:

| | **2019** | 2018 |
|---|---|---|
| Current | **P1,480,769,231** | P1,461,538,462 |
| Non-current | **3,000,000,000** | 2,480,769,231 |
| | **P4,480,769,231** | P3,942,307,693 |

In 2019, the Company obtained an unsecured long-term loan from a local bank amounting to P2.0 billion, payable quarterly for a term of five years. The loan bears a floating interest rate and is payable quarterly in arrears. The outstanding balance pertaining to this loan amounted to P2.0 billion as of December 31, 2019.

In 2017, the Company obtained an unsecured long-term loan from a local bank amounting to P2.0 billion. The loan is payable quarterly for a term of five years commencing on the beginning of the fifth quarter from the initial drawdown date. The loan bears a floating interest rate and is payable quarterly in arrears. The outstanding balance pertaining to this loan amounted to P1.5 billion and P2.0 billion as of December 31, 2019 and 2018, respectively.

In 2016, the Company obtained a P2.0 billion unsecured loan from a local bank with principal to be paid in quarterly instalments, commencing on the fifth quarter from date of initial drawdown. This loan carries a floating interest rate, which is repriced every 30 to 180 days as agreed by the parties. On October 25, 2018, the interest rate was fixed at 7.70%. The interest is payable quarterly in arrears. The outstanding balance pertaining to this loan amounted to P0.7 billion and P1.3 billion as at December 31, 2019 and 2018, respectively.

In 2015, the Company obtained a P1.5 billion unsecured loan with a term of five years from the initial drawdown, inclusive of a grace period on principal repayment of two years. The loan bears a fixed interest rate and payable quarterly in arrears. The outstanding balance pertaining to this loan amounted to P0.2 billion and P0.7 billion as at December 31, 2019 and 2018, respectively.

The Company has properly complied with the loan agreements' covenants as of the end of the reporting periods.

The accrued interest payable amounted to P9.9 million and P14.3 million as of December 31, 2019 and 2018, respectively, is presented as part of Others under the Trade and Other Payables account in the statements of financial position (see Note 15).

Total interest costs incurred attributable to these loans amounted to P269.4 million, P251.5 million and P151.0 million in 2019, 2018 and 2017, respectively. Of these amounts, P123.1 million, P123.2 million and P144.3 million in 2019, 2018 and 2017, respectively, were capitalized by the Company as part of Inventories account (see Note 6). Interest charged to expense amounting to P142.3 million, P128.3 million and P6.7 million in 2019, 2018 and 2017, respectively, is presented as Interest expense on loans under Finance Costs and Other Charges account in the statements of comprehensive income (see Note 19.2).

## 15. TRADE AND OTHER PAYABLES

This account consists of:

| | Notes | **2019** | 2018 |
|---|---|---|---|
| Trade payables | | **P 824,673,451** | P 923,640,422 |
| Deferred output VAT | | **384,399,406** | 405,497,004 |
| Due to joint venturers | | **94,013,726** | 224,880,752 |
| Retention payable | | **81,125,999** | 40,383,531 |
| Withholding tax and other government contributions payable | | **33,537,354** | 30,140,572 |
| Commissions payable | 22.7(a) | **28,163,554** | 63,595,469 |
| Rent payable | | **-** | 70,448,921 |
| Others | 14, 22.6, 32(a) | **83,327,593** | 61,361,530 |
| | | **P1,529,241,083** | P1,819,948,201 |

Trade payables include the unpaid portion of land for future development acquired by the Company and other payables in the normal course of business.

Due to joint venturers represent the share of JV partners in the proceeds from the sale of certain projects in accordance with various JV agreements entered into by the Company.

Commissions payable represents amounts due to the Company's various sales agents for units sold in the ordinary course of business.

Other payables consist primarily of refund liability, output VAT payable, security deposits and accrued interest payable.

## 16. OTHER NON-CURRENT LIABILITIES

This account consists of:

| | Note | **2019** | 2018 |
|---|---|---|---|
| Retention payable | | **P 293,554,549** | P 319,241,738 |
| Advance rental | 13 | **3,687,991** | 265,911,811 |
| | | **P 297,242,540** | P 585,153,549 |

Retention payable pertains to amount withheld from payments made to contractors to ensure compliance and completion of contracted projects equivalent to 10% of every billing made by the contractor. Upon completion of the contracted projects, the amounts are remitted back to the contractors.

## 17. REVENUES

### *17.1 Disaggregation of Revenues*

The Company derives revenues from sale of real estate. An analysis of the Company's major source of revenues is presented below.

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| **Geographical areas** | | | |
| Luzon | **P1,383,390,793** | P2,553,509,192 | P 2,201,561,776 |
| Visayas | **1,905,092,573** | 1,747,899,526 | 1,702,566,540 |
| | **P3,288,483,366** | P4,301,408,718 | P 3,904,128,316 |
| **Types of product** | | | |
| Residential condominium | **P 2,049,611,143** | P2,138,418,375 | P 1,524,060,580 |
| Residential lots | **995,302,080** | 2,100,349,541 | 2,251,229,044 |
| Commercial lots | **243,570,143** | 62,640,802 | 128,838,692 |
| | **P3,288,483,366** | P4,301,408,718 | P 3,904,128,316 |

### *17.2 Contract Accounts*

The significant changes in the contract assets and liabilities balances during the year are as follows:

*a. Contract Assets*

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **P2,539,142,717** | P1,758,877,004 |
| Transfers from contract assets recognized at the beginning of year to installment contract receivables | **( 3,050,684,310)** | ( 548,764,549 ) |
| Increase as a result of changes in measurement of progress, net of collections | **626,637,317** | 1,329,030,262 |
| Balance at end of year | **P 115,095,724** | P2,539,142,717 |

*b. Contract Liabilities*

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **P 291,395,500** | P 223,545,066 |
| Revenue recognized that was included included in contract liability at the beginning of year | **( 281,777,824)** | ( 180,984,296) |
| Increase as due to cash received excluding amount recognized as revenue during the year | **503,000,296** | 248,834,730 |
| Balance at end of year | **P 512,617,972** | P 291,395,500 |

### *17.3 Direct Contract Cost*

The Company incurs sales commissions upon execution of contracts to sell real properties to customers. Incremental costs of commission incurred to obtain contracts are capitalized and presented as Deferred commission under Prepayments and Other Current Assets in the statements of financial position (see Note 7). These are amortized over the expected construction period on the same basis as how the Company measures progress towards complete satisfaction of its performance obligation in its contracts. The total amount of amortization for 2019, 2018 and 2017 is presented as part of Commission under Other Operating Expenses account in statements of comprehensive income (see Note 18).

The movement in balances of deferred commission in 2019 and 2018 is presented below:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **P 113,356,778** | P 99,732,159 |
| Additional capitalized cost | **673,904** | 143,539,325 |
| Amortization for the period | **( 26,317,026)** | ( 129,914,706) |
| Balance at end of year | **P 87,713,656** | P 113,356,778 |

### *17.4 Transaction Price Allocated to Unsatisfied Performance Obligation*

The aggregate amount of transaction price allocated to partially or wholly unsatisfied contracts as of December 31, 2019 and 2018 is P0.63 billion and P1.03 billion, respectively. As of December 31, 2019 and 2018, the Company expects to recognize revenue from unsatisfied contracts as follows:

| | **2019** | 2018 |
|---|---|---|
| Within a year | **P 148,186,952** | P 837,591,611 |
| More than one year to three years | **348,238,043** | 193,711,872 |
| More than three years to five years | **130,993,863** | - |
| | **P 627,418,858** | P1,031,303,483 |

## 18. OPERATING EXPENSES BY NATURE

Presented below are the details of this account.

| | Notes | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Cost of real estate sales | | **P 1,459,939,404** | P 1,960,751,972 | P 1,625,366,950 |
| Salaries and employee benefits | 20.1, 23.2 | **268,714,264** | 217,096,493 | 191,907,096 |
| Commissions | 17.3, 22.7(a) | **221,254,453** | 235,186,156 | 216,090,144 |
| Depreciation and amortization | 10,11,12 13, 22.2 | **137,454,233** | 47,202,781 | 41,114,864 |
| Taxes and licenses | 12, 32(f) | **58,757,894** | 42,068,857 | 37,694,026 |
| Professional fees and outside services | | **56,057,334** | 38,690,184 | 28,711,532 |
| Rentals | 11, 22.2 | **32,129,030** | 112,400,183 | 74,741,058 |
| Utilities | | **28,030,776** | 35,259,643 | 23,725,742 |
| Subscriptions and membership dues | | **16,635,097** | 26,099,791 | 11,444,948 |
| Transportation and travel | | **15,576,874** | 15,824,562 | 20,897,344 |
| Management fees | 22.6 | **14,202,024** | 8,571,429 | 9,237,937 |
| Advertising and promotions | | **6,911,706** | 5,430,851 | 7,606,529 |
| Repairs and maintenance | 12 | **6,079,644** | 4,480,502 | 3,750,817 |
| Representation and entertainment | | **4,831,302** | 3,770,557 | 2,469,764 |
| Registration and other fees | 32(f) | **1,948,145** | 3,135,073 | 1,422,800 |
| Agency fees | | **1,527,019** | 1,468,536 | 1,770,759 |
| Insurance | | **1,228,320** | 1,549,472 | 966,935 |
| Directors' fees | | **400,000** | 450,000 | 450,000 |
| Miscellaneous | 12 | **17,619,060** | 32,367,917 | 11,467,493 |
| | | **P 2,349,296,579** | P 2,791,804,959 | P 2,310,836,738 |

These expenses are classified in the statements of comprehensive income as follows:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Cost of real estate sales | | **P 1,459,939,404** | P 1,960,751,972 | P 1,625,366,950 |
| Cost of rentals | 12, 13 | **40,267,051** | 19,145,785 | 15,748,703 |
| Other operating expenses | | **849,090,124** | 811,907,202 | 669,721,085 |
| | | **P 2,349,296,579** | P 2,791,804,959 | P 2,310,836,738 |

The cost of real estate sales is further broken down as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Contracted services | **P 1,317,082,417** | P 1,737,155,229 | P 1,466,061,713 |
| Borrowing cost | **83,583,948** | 93,690,906 | 51,012,587 |
| Land cost | **59,273,039** | 129,905,837 | 108,292,650 |
| | **P 1,459,939,404** | P 1,960,751,972 | P 1,625,366,950 |

## 19. FINANCE INCOME AND FINANCE COSTS AND OTHER CHARGES

### *19.1 Finance Income*

Presented below are the details of this account.

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Interest income from: | | | | |
| Finance lease | 13 | **P 44,255,601** | P - | P - |
| Real estate sales | 5 | **26,374,336** | 15,223,042 | 5,037,311 |
| Cash and short-term placements | 4 | **14,047,308** | 46,155,148 | 10,536,630 |
| Advances to related parties | 22.4 | **4,084,702** | 4,084,703 | 4,084,703 |
| Unrealized foreign exchange gains | | **-** | 2,055,689 | - |
| | | **P 88,761,947** | P 67,518,582 | P 19,658,644 |

### *19.2 Finance Costs and Other Charges*

Presented below are the details of this account.

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Interest expense on: | | | | |
| Loans | 14 | **P 142,261,701** | P 128,315,933 | P 6,660,000 |
| Lease liabilities | 11, 22.2 | **35,937,092** | - | - |
| Advances from related parties | 22.5 | **11,028,113** | 9,715,070 | 10,983,129 |
| Retirement benefit Obligation (RBO) | 20.2 | **2,032,663** | 1,746,466 | 1,410,456 |
| Others | | **2,541,384** | 6,770,030 | 5,033,837 |
| *Balance brought forward* | | **P 193,800,953** | P 146,547,499 | P 24,087,422 |

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| *Balance carried forward* | | **P 193,800,953** | P 146,547,499 | P 24,087,422 |
| Day one loss | 5 | **110,466,562** | 39,020,566 | 20,038,195 |
| Impairment loss | 9, 22.4 | **29,626,373** | 49,808,363 | - |
| Loss on refund | | **13,137,595** | 6,483,830 | 8,447,577 |
| Foreign exchange loss | | **3,055,197** | - | 3,978,328 |
| | | **P 350,086,680** | P 241,860,258 | P 56,551,522 |

## 20. EMPLOYEE BENEFITS

### *20.1 Salaries and Employee Benefits*

Expenses recognized for salaries and employee benefits are presented below.

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Short-term benefits | | **P 263,691,902** | P 206,095,500 | P 172,532,566 |
| Post-employment benefit | 20.2 | **4,129,409** | 7,693,835 | 9,335,217 |
| Share-based employee compensation | 23.2 | **892,953** | 3,307,158 | 10,039,313 |
| | | **P 268,714,264** | P 217,096,493 | P 191,907,096 |

### *20.2 Post-employment Defined Benefit Plan*

*(a) Characteristics of the Defined Benefit Plan*

The Company maintains an unfunded, non-contributory post-employment defined benefit plan covering all regular employees. The plan provides for lump-sum benefits equivalent to 85% to 150% of the employee’s monthly salary for every year of service depending on the number of years of service. The normal retirement age is 60 years and applicable upon completion of five years of faithful and continuous service to the Company. However, an employee who attains the age of 50 with the completion of no less than 10 years of service; or upon completion of 15 years of service and opts for an early retirement is likewise entitled to the same benefits. Actuarial valuations are made annually to update the retirement benefit costs.

*(b) Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are to be made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2019 and 2018.

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **P 22,460,370** | P 31,928,086 |
| Current service cost | **4,129,409** | 7,693,835 |
| Interest expense | **2,032,663** | 1,746,466 |
| Benefits paid | **-** | ( 111,735) |
| Actuarial losses (gains) arising from: | | |
| Changes in financial assumptions | **31,071,901** | ( 20,034,668) |
| Experience adjustments | **1,026,794** | 1,238,386 |
| Balance at end of year | **P 60,721,137** | P 22,460,370 |

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the post-employment defined benefit plan are shown below.

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| *Reported in profit or loss:* | | | |
| Current service cost | **P 4,129,409** | P 7,693,835 | P 9,335,217 |
| Interest cost | **2,032,663** | 1,746,466 | 1,410,456 |
| | **P 6,162,072** | P 9,440,301 | 10,745,673 |
| *Reported in other comprehensive income –* | | | |
| Actuarial losses (gains) arising from: | | | |
| Changes in financial assumptions | **P 31,071,901** | (P 20,034,668) | (P 6,372,842) |
| Experience adjustments | **1,026,794** | 1,238,386 | ( 2,729,365) |
| | **P 32,098,695** | (P 18,796,282) | (P 9,102,207) |

The amounts of current service cost incurred are presented as part of Salaries and employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Note 18). The amounts of interest expense related to the retirement benefit obligation are presented as Interest on RBO under Finance Costs and Other Charges in the statements of comprehensive income (see Note 19.2).

The amount recognized in other comprehensive income is included as an item that will not be reclassified subsequently to profit or loss.

In determining the amounts of the post-employment defined benefit obligation, the following significant actuarial assumptions were used:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Discount rates | **5.04%** | 9.05% | 5.47% |
| Expected rate of salary increase | **5.00%** | 5.00% | 5.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average expected remaining working life of employees retiring at the age of 60 is 31 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Company to actuarial risks such as interest rate risk and longevity and salary risks.

(i) *Interest Risk*

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

(ii) *Longevity and Salary Risks*

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) *Sensitivity Analysis*

| | Impact on Retirement Benefit Obligation | | |
|---|---|---|---|
| | Change in Assumptions | Increase in Assumptions | Decrease in Assumptions |
| **December 31, 2019** | | | |
| Discount rate | **+/- 0.5%** | **(P 5,990,097)** | **P 6,816,346** |
| Salary increase rate | **+/- 1.0%** | **14,069,857** | **( 11,118,539)** |
| December 31, 2018 | | | |
| Discount rate | +/- 0.5% | (P 1,567,648) | P 1,771,290 |
| Salary increase rate | +/- 1.0% | 3,790,080 | ( 3,007,050) |

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the DBO recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) Funding Arrangements and Expected Contributions*

The plan is currently unfunded as at December 31, 2019. While there is no minimum funding requirement in the country, the non-funding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire.

As at December 31, 2019, the Company is yet to determine how much and when to fund the post-employment benefit plan.

The maturity profile for the next 20 years of undiscounted expected benefit payments from the plan as of December 31 follows:

| | **2019** | 2018 |
|---|---|---|
| Within one year | **P 3,205,216** | P 491,899 |
| More than one year to five years | **3,892,767** | 3,847,461 |
| More than five years to 10 years | **11,352,360** | 6,148,118 |
| More than 10 years to 15 years | **25,456,414** | 28,358,793 |
| More than 15 years to 20 years | **135,747,598** | 70,028,420 |
| | **P 179,654,355** | P 108,874,691 |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 24 years.

## 21. CURRENT AND DEFFERED TAXES

The components of tax expense (income) as reported in the statements of comprehensive income are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| *Reported in profit or loss:* | | | |
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 30% | **P 349,660,303** | P 270,410,050 | P 288,302,427 |
| Final tax | **2,801,901** | 9,199,222 | 1,983,834 |
| | **352,462,204** | 279,609,272 | 290,286,261 |
| Deferred tax expense relating to origination and reversal of temporary differences | **3,140,121** | 253,311,733 | 262,864,261 |
| | **P 355,602,325** | P 532,921,005 | P 553,150,522 |
| *Reported in other comprehensive income –* | | | |
| Deferred tax expense (income) relating to remeasurements of retirement benefit plan | **(P 9,629,609)** | P 5,638,885 | P 2,730,662 |

A reconciliation of tax on pretax profit computed at the applicable statutory rates to income tax expense reported in the statements of comprehensive income is presented below.

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Tax on pretax profit | **P 341,877,261** | P 510,759,349 | P 546,377,224 |
| Adjustment for income subjected to lower income tax rates | **( 1,412,292)** | ( 5,217,591) | ( 1,177,155) |
| Tax effects of: | | | |
| Non-deductible expenses | **36,658,973** | 31,946,160 | 50,394,555 |
| Non-taxable income | **( 22,912,301)** | ( 4,566,913) | ( 43,487,228) |
| Non-deductible interest expense | **1,390,684** | - | 1,043,126 |
| | **P 355,602,325** | P 532,921,005 | P 553,150,522 |

The net deferred tax liabilities as at December 31 relate to the following:

| | **2019** | 2018 |
|---|---|---|
| Unrealized profit on real estate sale | **(P 787,489,377)** | (P 808,255,459) |
| Finance lease [see Note 2.2(a)(iv)] | **( 118,342,195)** | - |
| Share-based employee compensation | **70,927,670** | 70,659,784 |
| Capitalized borrowing cost | **( 59,129,099)** | ( 53,970,936) |
| Deferred commission | **( 36,301,583)** | ( 32,810,987) |
| Marketing fee receivable | **( 25,819,304)** | ( 12,308,665) |
| Rental income | **( 19,148,360)** | ( 14,436,318) |
| Retirement benefit obligation | **18,216,341** | 6,738,110 |
| Leases [see Note 2.2(a)(iv)] | **7,817,568** | - |
| Refund liability | **6,535,559** | 5,091,537 |
| Unrealized foreign exchange losses (gains) – net | **916,559** | ( 616,707) |
| | **(P 941,816,221)** | (P 839,909,641) |

The components of net deferred tax expense (income) are as follows:

| | **Profit or Loss** | | | **Other Comprehensive Income** | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | **2019** | 2018 | 2017 |
| Unrealized profit on real estate sales | **(P 20,766,082)** | P 241,059,729 | P 255,272,902 | **P -** | P - | P - |
| Finance lease | **13,276,680** | - | - | **-** | - | - |
| Share-based employee compensation | **( 267,886)** | ( 992,147) | ( 3,011,794) | **-** | - | - |
| Capitalized borrowing cost | **5,158,163** | 1,391,553 | 17,591,038 | **-** | - | - |
| Deferred commission | **3,490,596** | 3,887,621 | 23,972 | **-** | - | - |
| Rental income | **4,712,042** | 4,712,042 | 4,712,042 | **-** | - | - |
| Marketing fee receivable | **13,510,639** | 6,173,058 | ( 3,555,993) | **-** | - | - |
| Retirement benefit obligation | **( 1,848,622)** | ( 2,798,570) | ( 3,209,370) | **( 9,629,609)** | 5,638,885 | 2,730,662 |
| Refund liability | **( 1,444,022)** | ( 1,931,758) | ( 2,534,273) | **-** | - | - |
| Leases | **( 11,148,121)** | - | - | **-** | - | - |
| Unrealized foreign exchange gains (losses) - net | **( 1,533,266)** | 1,810,205 | ( 2,424,263) | **-** | - | - |
| Deferred tax expense (income) | **P 3,140,121** | P 253,311,733 | P 262,864,261 | **(P 9,629,609)** | P 5,638,885 | P 2,730,662 |

The Company is subject to minimum corporate income tax (MCIT), which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. The Company incurred RCIT in 2019, 2018 and 2017 as RCIT is higher than MCIT for the years presented.

In 2019, 2018 and 2017, the Company opted to claim itemized deductions in computing for its income tax due.

## 22. RELATED PARTY TRANSACTIONS

The Company's related parties include its parent company, subsidiaries, associates, a stockholder, the Company's key management personnel and others as described below.

### *22.1 Summary of Related Party Transactions*

The summary of the Company's transactions with its related parties for the years ended December 31, 2019, 2018 and 2017, and the related outstanding balances as of December 31, 2019 and 2018 is as follows:

| Related Party Category | Notes | Amount of Transactions 2019 | Amount of Transactions 2018 | Amount of Transactions 2017 | Outstanding Balances 2019 | Outstanding Balances 2018 |
|---|---|---|---|---|---|---|
| **Parent company:** | | | | | | |
| Lease liability | 22.2 | **P 138,478,275** | P - | P - | **P 138,478,275** | P - |
| Rental expense | 22.2 | **-** | 67,545,144 | 40,792,631 | **-** | - |
| Prepaid rentals | 22.2 | **-** | 20,803,960 | 20,386,603 | **-** | 20,803,960 |
| Rental deposits | 22.2 | **-** | 22,053,253 | 21,423,385 | - | 22,053,253 |
| Availment of advances – including interest | 22.5 | **( 13,819,480)** | ( 8,642,921) | ( 37,061,655) | **( 161,968,452)** | ( 148,148,972) |
| Commission expense | 22.7 | **21,500,974** | 21,051,434 | 31,477,557 | **-** | - |
| Services | 22.6 | **8,571,429** | 8,571,429 | 9,237,937 | **-** | - |
| **Subsidiaries:** | | | | | | |
| Rental income | 22.2 | **57,354,468** | 15,805,715 | 16,119,965 | **55,344,990** | 26,809,533 |
| Management and marketing income | 22.3 | **86,492,547** | 58,118,742 | 55,057,081 | **64,116,215** | 42,156,925 |
| Net grants of cash advances | 22.4 | **( 444,527,780)** | 380,653,556 | 380,143,056 | **8,557,601,008** | 9,002,128,788 |
| Repayments of advances | 22.5 | **-** | - | 1,413,141 | **-** | - |
| Commission expense | 22.7 | **100,931,655** | 72,529,611 | 80,181,931 | **( 28,163,554)** | ( 25,100,097) |
| Commission income | 22.7 | **-** | 14,267,298 | 55,942,570 | **-** | - |
| **Associates:** | | | | | | |
| Rental income | 22.2 | **-** | - | - | - | 580,028 |
| Net grants (collections) of cash advances | 22.4 | **-** | ( 35,968,513) | ( 17,840) | **7,518,689** | 7,518,689 |
| **Other investees of shareholders:** | | | | | | |
| Rental income | 22.2 | **6,742,495** | 123,418 | 617,092 | **-** | 194,513 |
| Granting of cash advances – net of collections | 22.4 | **123,561,187** | 41,874,172 | 122,640,817 | **1,620,652,311** | 1,519,198,808 |
| Net repayments (availments) of cash advances | 22.5 | **( 102,387,990)** | ( 96,776,318) | ( 5,345,802) | **73,611,366** | ( 175,999,356) |
| **Key Management Personnel –** Compensation | 22.8 | **25,736,185** | 26,255,456 | 29,308,436 | **-** | - |

Based on management's assessment, certain advances to related parties were impaired as of December 31, 2019. There are no impairment losses required to be recognized on the outstanding receivables from related parties on these transactions as of December 31 2018 [see Note 26.2(c)].

### *22.2 Rental Income and Rental Expense*

*(a) Company as a Lessor*

The Company leases its investment property to certain related parties with rental payments mutually agreed on a yearly basis. The rental earned from these related parties, which are based either on fixed monthly payments or with annual escalation rate of 5% per agreement, are included as part of Rental Income account in the statements of comprehensive income (see Note 12). The outstanding receivables from these transactions are presented as part of Rental receivables under the Trade and Other Receivables account in the statements of financial position (see Note 5).

The outstanding receivables from these transactions are short-term, unsecured, noninterest-bearing and are generally settled in cash upon demand.

*(b) Company as a Lessee*

In 2012, the Company entered into several operating lease agreements as a lessee with Megaworld, covering showrooms for advertising and promotional use. The leases have terms ranging from one to five years with renewal options, and include annual escalation rates of 5% to 10%. Rental expense incurred in relation to these leases is presented as part of Rental under the Other Operating Expenses account in the statements of comprehensive income (see Note 18). There was no outstanding balance from this transaction as of December 31, 2018 and 2017.

In 2016, the Company entered into a lease agreement as lessee with Megaworld for the new space where the Company transferred its office in 2017. On January 1, 2019, in connection with the adoption of PFRS 16, the Company recognized right-of-use asset and lease liability amounting to P127.5 million and P103.8 million, respectively. The corresponding amortization of the right-of-use asset amounted to P37.3 million and is presented as part of Depreciation and amortization under Other Operating Expenses in the 2019 statement of comprehensive income (see Note 18). Interest incurred on lease liability amounted to P8.0 million and is presented as part of Interest expense under Finance Costs and Other Charges in the 2019 statement of comprehensive income (see Note 19.2). As of December 31, 2019, the carrying amounts of the right-of-use asset and lease liability amounted to P90.2 million and P103.8 million, respectively. As of December 31, 2018, the Company's prepayments and deposits amounting to P42.9 million are included as part of Prepayments under the Prepayments and Other Current Assets account in the 2018 statement of financial position (see Note 7).

Total rent expense recognized amounted to P67.5 million and P40.8 million in 2018 and 2017, respectively and is presented as part of Rental under Other Operating Expenses account in the 2018 and 2017 statements of comprehensive income (see Note 18).

### *22.3 Management and Marketing Income*

In 2017, the Company and FEUDC entered into an agreement wherein the Company shall provide technical guidance in terms of management and supervision of the latter's operations and in return, the Company shall receive management fees.

In 2012, the Company and OPI entered into an exclusive marketing agreement wherein the Company is appointed as the exclusive marketing agent of certain projects of OPI. The Company shall be responsible for all expenses incurred for advertising, promotion, printing of brochures, marketing research, sales management, and documentation of sales. In consideration for the services rendered to OPI, the Company will receive a management fee equivalent to 5% and marketing fee equivalent to 12% of the cash collections from the sale of lots.

Management and marketing fee earned in relation to the above agreements is presented as part of Management and Marketing Income account in the statements of comprehensive income. The related outstanding receivable from this transaction amounted to P64.1 million and P42.2 million as at December 31, 2019 and 2018 is presented as Marketing and management fee receivable under Trade and Other Receivables account in the statements of financial position (see Note 5).

The outstanding receivables from these transactions are short-term, unsecured, noninterest-bearing and are generally settled in cash upon demand.

### *22.4 Advances to Related Parties and Officers and Employees*

The Company grants advances to its subsidiaries, associates and other related parties for working capital purposes. The balances of these advances, shown as Advances to Related Parties account in the statements of financial position, are as follows:

| | **2019** | 2018 |
|---|---|---|
| Subsidiaries | **P 8,557,601,008** | P 9,002,128,788 |
| Associates | **-** | 7,518,689 |
| Other investees of shareholders | **1,620,652,311** | 1,519,198,808 |
| | **P 10,178,253,319** | P10,528,846,285 |

A summary of transactions with these related parties are as follows:

| | Amount of Transactions | | |
|---|---|---|---|
| | **2019** | 2018 | 2017 |
| Subsidiaries: | | | |
| Balance at beginning of year | **P 9,002,128,788** | P 8,621,475,232 | P 8,241,332,177 |
| Cash advances granted | **-** | 380,653,556 | 544,286,346 |
| Collections | **( 444,527,780)** | - | ( 164,143,291) |
| Balance at end of year | **P 8,557,601,008** | P 9,002,128,788 | P 8,621,475,232 |
| Associates: | | | |
| Balance at beginning of year | **P 7,518,689** | P 43,487,202 | P 43,505,042 |
| Impairment loss | **( 7,518,689)** | - | - |
| Collections | **-** | ( 35,968,513) | ( 17,840 ) |
| Balance at end of year | **P -** | P 7,518,689 | P 43,487,202 |
| Other investees of shareholders: | | | |
| Balance at beginning of year | **P 1,519,198,808** | P 1,477,324,636 | P 1,354,683,819 |
| Cash advances granted | **123,561,187** | 43,947,614 | 122,939,206 |
| Impairment loss | **( 22,107,684)** | - | - |
| Collections | **-** | ( 2,073,442) | ( 298,389) |
| Balance at end of year | **P 1,620,652,311** | P 1,519,198,808 | P 1,477,324,636 |

The advances to related parties are unsecured, due and demandable any time and are generally payable in cash. Except for the advances to Camp John Hay Development Corporation (CJDEVCO) and Golforce, Inc., these advances are noninterest-bearing. The advances to CJDEVCO and Golforce, Inc. totalling P46.4 million and P46.2 million as at December 31, 2019 and 2018, respectively, bear annual interest of 16% in both years. Interest earned from these advances amounted to P4.1 million in 2019, 2018 and 2017, and is shown as part of Finance Income account in the statements of comprehensive income (see Note 19.1). The interest receivable from these advances amounting to P35.2 million and P31.5 million as at December 31, 2019 and 2018, respectively, is shown as Interest receivable under the Trade and Other Receivables account in the statements of financial position (see Note 5).

In 2019, the Company's management assessed that certain advances to related parties were impaired. The impairment loss is presented as part of Finance Costs and Other Charges in the 2019 statement of comprehensive income (see Note 19.2).

The Company also has unsecured and noninterest-bearing outstanding Advances to officers and employees which are presented under the Trade and Other Receivables account in the statements of financial position (see Note 5). These are settled through salary deduction or liquidation.

### *22.5 Advances from Related Parties*

The Company obtains advances from a subsidiary and other related parties for working capital purposes. These advances are unsecured and are repayable in cash upon demand. Also, except for the advances from Megaworld, these advances are noninterest-bearing.

The outstanding advances from these related parties shown as Advances from Related Parties account in the statements of financial position are as follows:

| | **2019** | 2018 |
|---|---|---|
| Parent company | **P 161,968,452** | P 148,148,972 |
| Other investees of shareholders | **73,611,366** | 175,999,356 |
| | **P 235,579,818** | P 324,148,328 |

A summary of transactions with these related parties are as follows:

| | **Amount of Transactions** | | |
|---|---|---|---|
| | **2019** | 2018 | 2017 |
| Parent company: | | | |
| Balance at beginning of year | **P 148,148,972** | P 139,506,051 | P 102,444,396 |
| Cash advances obtained | **5,731,148** | 1,024,477 | 26,078,526 |
| Interest expense | **8,088,332** | 7,618,444 | 10,983,129 |
| Balance at end of year | **P 161,968,452** | P 148,148,972 | P 139,506,051 |
| Subsidiary: | | | |
| Balance at beginning of year | **P -** | P - | P 1,413,141 |
| Repayments | **-** | - | ( 1,413,141) |
| Balance at end of year | **P -** | P - | P - |
| Other investees of shareholders: | | | |
| Balance at beginning of year | **P 175,999,356** | P 79,223,038 | P 73,877,236 |
| Cash advances obtained | **-** | 101,981,019 | 5,425,579 |
| Repayments | **( 102,387,990)** | ( 5,204,701) | ( 79,777) |
| Balance at end of year | **P 73,611,366** | P 175,999,356 | P 79,223,038 |

The advances from Megaworld bear annual interest of 6.0%. The interest expense incurred in 2019, 2018 and 2017 are presented as part of Finance Costs and Other Charges in the statements of comprehensive income (see Note 19.2).

The related unpaid interest amounting to P47.6 million and P39.5 million as at December 31, 2019 and 2018, respectively, is included as part of the Advances from Related Parties account in the statements of financial position.

### *22.6 Services*

In 2019 and 2018, the Company obtained services from a related party for a fixed consideration. The amount of expenses incurred from such transaction is recorded as Management fees under the Other Operating Expenses account in the 2019 and 2018 statements of comprehensive income (see Note 18) while the related outstanding payable is presented as part of Others under Trade and Other Payables account in the statements of financial position (see Note 15).

### *22.7 Others*

*(a) Commission Expense*

In the normal course of business, the Company pays commissions to Megaworld and MGEI for marketing services rendered with the purpose of increasing sales from the Company's projects.

The commissions are based on pre-agreed rates and are payable once a certain percentage of the contract price has been collected. Commissions incurred are presented as part of Commissions under Other Operating Expenses account in the statements of comprehensive income (see Note 18). The related outstanding payable is presented as part of Commission payable under Trade and Other Payables account in the statements of financial position (see Note 15).

The outstanding payables from these transactions are short-term, unsecured, noninterest-bearing and generally settled in cash upon demand.

*(b) Commission Income*

The Company provided marketing services to TLC to increase the latter's real estate sales. Total amount of commission income earned is included as part of Others under Revenues account in the statements of comprehensive income. There are no outstanding receivables related to this transaction as at December 31, 2019 and 2018.

*(c) Others*

The Company has control of funds amounting to P262.7 million and P338.1 million as at December 31, 2019 and 2018, respectively, that are held in trust by MGEI. These are included as part of the Cash and Cash Equivalents account in the statements of financial position (see Note 4).

### *22.8 Key Management Personnel Compensation*

The Company's key management personnel compensation, which is presented as part of Salaries and employee benefits (see Note 19.1), includes the following:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Share-based employee compensation | 23.2 | **P 892,952** | P 3,307,158 | P 10,039,313 |
| Short-term benefits | | **20,162,959** | 19,053,997 | 14,990,941 |
| Post-employment defined benefit | | **4,680,274** | 3,894,301 | 4,278,182 |
| | | **P 25,736,185** | P 26,255,456 | P 29,308,436 |

## 23. EQUITY

### *23.1 Capital Stock*

Capital stock as of December 31, 2019, 2018 and 2017 consists of:

| | Shares | Amount |
|---|---|---|
| Common shares – P1 par value | | |
| Authorized | 20,000,000,000 | P 20,000,000,000 |
| Issued and outstanding | | |
| Balance at end of year | 10,986,000,000 | P 10,986,000,000 |

On November 23, 1995, the SEC approved the listing of the Company's common shares totaling 150.0 million. The shares were initially issued at an offer price of P19.50 per common share. As at December 31, 2019 and 2018, there are 4,231 and 4,231 holders of the listed shares, which closed at P1.20 per share and P1.13 per share, respectively.

The Company also made additional listings of 2.2 billion, 5.0 billion and 2.5 billion shares on January 11, 2007, January 20, 2011 and August 14, 2013, respectively.

### *23.2 Employee Stock Option Plan*

On September 23, 2011, the BOD of the Company approved an Executive Stock Option Plan (the ESOP) for its key executive officers. This was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the ESOP is to enable the key executives and senior officers of the Company, who are largely responsible for its further growth and development, to obtain an ownership interest in the Company, thereby encouraging long-term commitment to the Company. The ESOP is being administered by the Executive Compensation Committee of the BOD.

Under the ESOP, the Company shall initially reserve for exercise of stock options up to 500.0 million common shares of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within 10 years from the adoption of the ESOP and may be exercised within seven years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for twelve months immediately preceding the date of grant. The options shall vest within three years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three-year period. The Company shall receive cash for the stock options.

As of December 31, 2019, pursuant to this ESOP, the Company has granted the option to its key company executives to subscribe to 400.0 million shares of the Company. An option holder may exercise in whole or in part his vested option provided, that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle. A total of 400.0 million and 383.3 million options have vested as at December 31, 2019 and 2018, respectively, but none of these have been exercised yet by any of the option holders as at the end of the reporting periods.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The principal assumptions used in the valuation were shown below.

| | | |
|---|---|---|
| Grant dates | : | February 16, 2012, February 18, 2013<br>March 7, 2014, March 9, 2015,<br>July 14, 2016 |
| Vesting period ends | : | February 15, 2015, February 17, 2016,<br>March 6, 2017, March 8, 2018,<br>July 13, 2019 |
| Option life | : | Seven years |
| Share price at grant dates | : | P2.10, P2.09, P1.60, P1.63, P1.02 |
| Exercise price at grant dates | : | P1.93, P1.69, P1.50, P1.65, P1.00 |
| Average fair value at grant dates | : | P2.27, P0.74, P0.42, P0.34, P0.24 |
| Average standard deviation of share price returns | : | 57.10%, 20.85%, 16.16%, 12.16%, 15.29% |
| Average risk-free investment rates | : | 2.46%, 2.14%, 2.46%, 2.51%, 2.59% |

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time consistent with the option life.

A total of P0.9 million, P3.3 million and P10.0 million share-based employee compensation is recognized for the years ended December 31, 2019, 2018 and 2017, respectively, and is included as part of Salaries and employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Note 18), and is credited to Retained Earnings in the equity section of the statements of financial position.

## 24. EARNINGS PER SHARE

Earnings per share amounts were computed below.

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Basic: | | | |
| Net profit for the year | **P 783,988,545** | P 1,169,610,157 | P 1,268,106,891 |
| Divided by weighted number of outstanding common shares | **10,986,000,000** | 10,986,000,000 | 10,986,000,000 |
| | **P 0.071** | P 0.106 | P 0.115 |
| Diluted: | | | |
| Net profit for the year | **P 783,988,545** | P 1,169,610,157 | P 1,268,106,891 |
| Divided by weighted number of outstanding common shares | **11,376,972,222** | 11,357,527,778 | 11,318,638,888 |
| | **P 0.069** | P 0.103 | P 0.112 |

In relation to the approved ESOP for key executive officers, the vested options exercisable by any of the option holders are considered as potentially dilutive shares.

## 25. COMMITMENTS AND CONTINGENCIES

### *25.1 Lease Commitments – Company as Lessor*

The Company is a lessor under several operating leases covering real estate properties for commercial use and development rights (see Notes 12 and 13). The leases which have a term of 32 years, have terms ranging from one to five years, with renewal options, and include annual escalation rate of 5%. The average annual rental covering these agreements amounted to P141.7 million. Future minimum lease receivables under these agreements are presented below.

| | **2019** | 2018 |
|---|---|---|
| Within one year | **P 184,588,845** | P 136,969,626 |
| After one year but not more than two years | **212,490,794** | 152,478,675 |
| After two years but not more than three years | **190,533,937** | 146,599,403 |
| After three years but not more than four years | **181,853,838** | 138,906,897 |
| After four years but not more than five years | **153,322,104** | 133,673,899 |
| More than five years | **1,518,464,982** | 1,636,885,687 |
| | **P 2,441,254,500** | P 2,345,514,187 |

The undiscounted maturity analysis of finance lease receivable at December 31, 2019 is as follows:

| | **Within 1 year** | **1 to 2 years** | **2 to 3 years** | **3 to 4 years** | **4 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|---|
| Lease collection | P 90,472,736 | P 87,459,667 | P 88,060,235 | P 88,699,119 | P 89,346,871 | P795,445,702 | P1,239,494,330 |
| Interest income | ( 3,685,787) | ( 42,130,827 ) | ( 38,419,280 ) | ( 34,355,507) | ( 29,909,018) | ( 418,237,382) | ( 566,737,901 ) |
| Net present value | **P 86,786,949** | **P 45,328,840** | **P 49,650,855** | **P 54,343,612** | **P 59,437,853** | **P377,208,320** | **P 672,756,429** |

### *25.2 Operating Lease Commitments – Company as Lessee (2018)*

The Company is a lessee under several operating leases covering its office space, commercial lot and showrooms for advertising and promotional use. The leases have terms ranging from three months to five years with renewal options, and include annual escalation rate of 5% to 10%. The rental expense covering these agreements amounted to P112.4 million for the year ended December 31, 2018 (see Note 18). The future minimum rental payables under these non-cancelable leases as at December 31, 2018 is shown below.

| | |
|---|---|
| Within one year | P 76,196,920 |
| After one year but not more than five years | 396,788,893 |
| More than five years | 777,489,228 |
| | P 1,250,475,041 |

### *25.3 Legal Claims*

As at December 31, 2019 and 2018, the Company is a party to certain litigations arising from the normal course of business. No provision was recognized in the Company's financial statements because the ultimate outcome of these litigations cannot be presently determined. In addition, the Company's management believes that its impact in the financial statements, taken as a whole, is not material.

***25.4 Others***

There are other commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Company which are not reflected in the financial statements. The management of the Company is of the opinion that losses, if any, from these items will not have any material effect on their financial statements.

## 26. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks in relation to financial instruments. The Company's financial assets and financial liabilities by category are summarized in Note 27. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated in close cooperation with the BOD, and focuses on actively securing the Company's short-to-medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Company does not engage in the trading of financial assets for speculative purposes. The relevant financial risks to which the Company is exposed to are described below and in the succeeding pages.

***26.1 Market Risk***

*(a) Foreign Currency Risk*

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates, however, arise from the Company's cash and cash equivalents which are denominated in U.S. dollars.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets, translated into Philippine pesos at the closing rates at end of 2019, 2018 and 2017, pertain to cash and cash equivalents amounting to P92.8 million, P117.0 million and P57.2 million, respectively. The Company has no U.S. dollar denominated financial liabilities in 2019, 2018 and 2017.

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have decreased by P8.8 million, P13.0 million and P7.4 million in 2019, 2018 and 2017, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have increased profit before tax in 2019, 2018 and 2017 by the same amount. This sensitivity of the net result for the year assumes a +/- 9.5%, +/- 11.1% and +/- 13.0% change of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2019, 2018 and 2017, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months for 2019 and 2018 estimated at 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of the reporting periods.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Company's foreign currency risk.

*(b) Interest Rate Risk*

As at December 31, 2019 and 2018, the Company is exposed to changes in market interest rates through its cash and cash equivalents and interest bearing loans, which are subject to variable interest rates (see Notes 4 and 14). All other financial assets and liabilities have fixed rates.

The sensitivity of the Company's profit before tax is analyzed based on reasonably possible change for the year to a reasonably possible change in interest rates of +/- 3.72% in 2019, +/- 1.48% in 2018 and +/- 0.51% in 2017. These changes are considered to be reasonably possible based on observation of current market conditions. The percentage changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months at a 99% confidence level. The sensitivity analysis is based on the Company's financial instruments held at the end of each reporting period, with effect estimated from beginning of the year. All other variables held constant, if the interest rate increased by 3.72%, 1.48% and 0.51% , in 2019, 2018 and 2017 respectively, profit before tax in 2019, 2018 and 2017 would have decreased by P26.0 million, P34.1 million and P30.7million in 2019, 2018 and 2017, respectively. Conversely, if the interest rates decreased by the same percentages, profit before tax in 2019, 2018 and 2017, would have been higher by the same amount.

### *26.2 Credit Risk*

Credit risk is the risk when a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers and related parties and by placing deposits.

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties.

Generally, the maximum credit risk exposure of financial assets and contract assets are the carrying amounts of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements, as summarized below.

| | Notes | **2019** | 2018 |
|---|---|---|---|
| Cash and cash equivalents | 4 | **P 1,914,039,462** | P 1,329,849,615 |
| Installment contracts receivable – net | 5 | **4,473,099,357** | 2,170,995,878 |
| Finance lease receivable | 5 | **672,756,429** | - |
| Rental receivables | 5 | **139,618,860** | 111,945,456 |
| Other receivables | 5 | **122,404,450** | 106,674,903 |
| Contract assets | 17.2 | **115,095,724** | 2,539,142,717 |
| Advances to related parties | 22.4 | **10,178,253,319** | 10,528,846,285 |
| Advances to joint ventures | 8 | **186,680,846** | 155,879,311 |
| Refundable deposits | | **46,621,968** | 41,388,840 |
| | | **P 17,848,570,415** | P 16,984,723,005 |

*(a) Cash and Cash Equivalents*

The credit risk for cash is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

As part of Company policy, bank deposits are only maintained with reputable financial institutions. Cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million per depositor per banking institution, as provided for under R.A. No. 9576, *Amendment to Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

The Company applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance for impairment will be based on the lifetime ECL. The Company uses the ratings from Standard and Poor's to determine whether the debt instrument has significantly increased in credit risk and to estimate ECL.

As of December 31, 2019 and 2018, impairment allowance is not material.

*(b) Trade and Other Receivables and Contract Assets*

Credit risk of receivables from sale of real estate properties is managed primarily through credit reviews and analyses of receivables on a regular basis. The Company undertakes credit review procedures for all installment payment terms. Customer payments are facilitated through the use of post dated checks. Exposure to doubtful accounts is not substantial as title to real estate properties are not transferred to the buyers until full payment of the amortization has been made and the requirement for remedial procedures is negligible considering the Company's buyers' profile.

The Company has used the simplified approach in measuring ECL and has calculated ECL based on lifetime ECL. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date. The Company has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking information specific to the buyers and the economic environment.

The Company considers trade receivables in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to 90 days and beyond. Furthermore, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The provision rate based on days past due of all customers as they have similar loss patterns. The credit enhancements such advance payment and value of the real estate for sale are considered in the calculation of impairment as recoveries.

The management determined that there is no required ECL to be recognized since the real estate sold is collateralized to the related receivable arising from sale. Therefore, there is no expected loss given default as the recoverable amount from subsequent resale of the real estate is sufficient.

Other components of receivables such as Rental receivables are also evaluated by the Company for impairment and assessed the no ECL should be provided. Rental receivables are secured to the extent of advance rental and security deposit received from the lessees, which are in average equivalent to six months.

The estimated fair value of collateral and other security enhancements held against installment contract receivables, contract assets and rent receivables are presented below.

| | Gross Maximum Exposure | Fair Value of Collaterals | Net Exposure |
|---|---|---|---|
| **2019** | | | |
| Installment contracts receivable – net | P 4,473,099,357 | P 10,508,269,702 | P - |
| Contract assets | 115,095,724 | 253,435,470 | - |
| Rent receivables | 139,618,860 | 140,072,349 | - |
| | **P 4,727,813,941** | **P 10,901,777,521** | **P -** |
| 2018 | | | |
| Installment contracts receivable – net | P 2,170,995,878 | P 3,269,219,939 | P - |
| Contract assets | 2,539,142,717 | 5,754,033,431 | - |
| Rent receivables | 111,945,456 | 290,520,810 | - |
| | P 4,822,084,051 | P 9,313,774,180 | P - |

Some of the unimpaired trade and other receivables, which are mostly related to real estate sales, are past due as at the end of the reporting period and are presented below.

| | **2019** | 2018 |
|---|---|---|
| Current (not past due) | **P5,033,627,264** | P2,186,489,527 |
| Past due but not impaired: | | |
| More than one month but not more than 3 months | **237,248,113** | 89,221,579 |
| More than 3 months but not more than 6 months | **45,087,132** | 77,092,621 |
| More than 6 months but not more than one year | **91,916,587** | 36,812,510 |
| | **P5,407,879,096** | P2,389,616,237 |

*(c) Advances to Related Parties and Advances to Joint Ventures*

ECL for Advances to related parties are measured and recognized using the liquidity approach. Management determines possible impairment based on the related party's ability to repay the advances upon demand at the reporting date taking into consideration the historical defaults from the related parties. Management assessed that the outstanding receivables from certain related parties as of December 31, 2019 are not recoverable since these related parties have no capacity to pay the advances upon demand. Accordingly, impairment loss amounting to P29.6 million is recognized and is presented as part of Finance Costs and Other Charges account in the 2019 statement of comprehensive income (see Note 19.2). As of December 31, 2018, possible impairment is assessed to be immaterial.

The Company does not consider any significant risks in the remaining advances to related parties since Megaworld and other related parties, whose credit risks for liquid funds are considered negligible, have committed to financially support these related parties as part of AGI's long-term corporate strategy.

In addition, there is also no significant risks in the advances joint ventures as these are advances to joint venturers in the Company's certain real estate projects which are set-off against the joint venturer's share in the collections of receivables pertaining to such projects. As of December 31, 2019 and 2018, impairment allowance is not material.

### *26.3 Liquidity Risk*

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Company's financial liabilities have contractual maturities which are presented below.

| | | Current | | Non-current | |
|---|---|---|---|---|---|
| | Notes | Within 6 Months | 6 to 12 Months | 1 to 5 Years | Beyond 5 Years |
| **2019 :** | | | | | |
| Interest-bearing loans | 14 | P 861,926,045 | P 856,564,219 | P 3,249,493,594 | P - |
| Trade and other payables | 15 | 1,014,831,915 | - | - | - |
| Advances from related parties | 22.5 | - | 235,579,818 | - | - |
| Lease liabilities | 11 | 50,612,692 | 50,612,692 | 201,631,612 | 777,489,229 |
| Retention payable | 15, 16 | - | 81,125,999 | - | 293,554,549 |
| | | **P1,927,370,652** | **P1,223,882,728** | **P 3,451,125,206** | **P1,071,043,778** |
| 2018 : | | | | | |
| Interest-bearing loans | 14 | P 861,127,550 | P 831,712,735 | P 2,705,483,858 | P - |
| Trade and other payables | 15 | 1,338,465,405 | - | - | - |
| Advances from related parties | 22.5 | - | 324,148,328 | - | - |
| Retention payable | 15, 16 | - | 40,383,531 | - | 319,241,738 |
| | | P2,199,592,955 | P 1,196,244,594 | P 2,705,483,858 | P 319,241,738 |

## 27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *27.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities*

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| ***Financial Assets*** | | | | |
| Financial assets at amortized cost: | | | | |
| Cash and cash equivalents | **P 1,914,039,462** | **P 1,914,039,462** | P 1,329,849,615 | P 1,329,849,615 |
| Trade and other receivables – net | **5,407,879,096** | **5,724,937,337** | 2,389,616,237 | 2,447,417,582 |
| Advances to related parties | **10,178,253,319** | **10,178,253,319** | 10,528,846,285 | 10,528,846,285 |
| Advances to joint ventures | **186,680,846** | **186,680,846** | 155,879,311 | 155,879,311 |
| Refundable deposits | **46,621,968** | **46,621,968** | 41,388,840 | 41,388,840 |
| | **P 17,733,474,691** | **P 18,050,532,932** | P14,455,580,288 | P14,503,381,633 |
| ***Financial Liabilities*** | | | | |
| Financial liabilities at amortized cost: | | | | |
| Trade and other payables | **P 1,014,831,915** | **P 1,014,831,915** | P 1,338,465,405 | P 1,338,465,405 |
| Interest-bearing loans | **4,480,769,231** | **4,445,600,798** | 3,942,307,693 | 3,911,808,444 |
| Advances from related parties | **235,579,818** | **235,579,818** | 324,148,328 | 324,148,328 |
| Lease liabilities | **494,291,684** | **494,291,684** | - | - |
| Retention payable | **374,680,548** | **374,680,548** | 359,625,269 | 359,625,269 |
| | **P 6,600,153,196** | **P 6,564,984,763** | P 5,964,546,695 | P 5,934,047,466 |

See Notes 2.4 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 26.

### *27.2 Offsetting of Financial Assets and Financial Liabilities*

The Company has not set-off financial instruments in 2019 and 2018 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and stockholders or upon instruction by the parent company. As such, the Company's outstanding advances to related parties amounting to P10,207.9 million and P10,528.8 million can be offset by the amount of outstanding advances from related parties amounting to P235.6 million and P324.1 million as at December 31, 2019 and 2018, respectively (see Note 22).

The Company has cash in a certain local bank to which it has an outstanding loan (see Note 14). In case of the Company's default on loan amortization, cash in bank amounting to P871.0 million and P772.1 million as of December 31, 2019 and 2018, respectively, can be applied against its outstanding loan amounting to P4,480.8 million and P3,942.3 million as of December 31, 2019 and 2018, respectively.

## 28. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *28.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The levels of fair value hierarchy are shown below.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *28.2 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below and in the succeeding page summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the 2019 and 2018 statements of financial position but for which fair value is disclosed.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2019:** | | | | |
| ***Financial Assets:*** | | | | |
| Cash and cash equivalents | P1,914,039,462 | P - | P - | P 1,914,039,462 |
| Trade and other receivables – net | - | - | 5,724,937,337 | 5,724,937,337 |
| Advances to related parties | - | - | 10,178,253,319 | 10,178,253,319 |
| Advances to joint ventures | - | - | 186,680,846 | 186,680,846 |
| Refundable deposits | - | - | 46,621,968 | 46,621,968 |
| | **P1,914,039,462** | **P -** | **P16,136,493,470** | **P18,050,532,932** |
| ***Financial Liabilities:*** | | | | |
| Trade and other payables | P - | P - | P 1,014,831,915 | P 1,014,831,915 |
| Interest-bearing loans | - | - | 4,445,600,798 | 4,445,600,798 |
| Advances from related parties | - | - | 235,579,818 | 235,579,818 |
| Lease liabilities | - | - | 494,291,684 | 494,291,684 |
| Retention payable | - | - | 374,680,548 | 374,680,548 |
| | **P -** | **P -** | **P 6,564,984,763** | **P 6,564,984,763** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 2018: | | | | |
| *Financial Assets:* | | | | |
| Cash and cash equivalents | P1,329,849,615 | P - | P - | P 1,329,849,615 |
| Trade and other receivables – net | - | - | 2,447,417,582 | 2,447,417,582 |
| Advances to related parties | - | - | 10,528,846,285 | 10,528,846,285 |
| Advances to joint ventures | - | - | 155,879,311 | 155,879,311 |
| Refundable deposits | - | - | 41,388,840 | 41,388,840 |
| | P1,329,849,615 | P - | P13,173,532,018 | P14,503,381,633 |
| *Financial Liabilities:* | | | | |
| Trade and other payables | P - | P - | P 1,338,465,405 | P 1,338,465,405 |
| Interest-bearing loans | - | - | 3,911,808,444 | 3,911,808,444 |
| Advances from related parties | - | - | 324,148,328 | 324,148,328 |
| Retention payable | - | - | 359,625,269 | 359,625,269 |
| | P - | P - | P 5,934,047,466 | P 5,934,047,466 |

For financial assets and liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values due to their short-term duration.

The fair values of the financial assets and liabilities included in Level 3, which are not traded in an active market is determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

### *28.3 Investment Property Measured at Cost for which Fair Value is Disclosed*

In estimating the fair value of the Company's investment property, management takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use. Based on management assessment, the best use of the Company's investment property is its current use.

The fair value of the investment property was determined based on the following approaches:

*(i) Fair Value Measurement for Land*

The Level 3 fair value of land was derived through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property.

*(ii) Fair Value Measurement for Building and Improvements*

The fair value of the Company's building and improvements, which are classified under Level 3 of the fair value hierarchy, is determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate applicable to these assets.

## 29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Company also monitors its debt coverage ratio (DCR) in each of the reporting periods. As at December 31, 2019 and 2018, the Company's DCR is 1.79:1.00 and 1.60:1.00 , respectively.

The Company also monitors capital on the basis of the carrying amount of equity as presented on the face of the statements of financial position. Capital for the reporting periods under review is summarized below.

| | **2019** | 2018 |
|---|---|---|
| Total liabilities | **P 9,321,466,457** | P 8,308,475,533 |
| Total equity | **21,392,706,496** | 20,377,369,924 |
| Debt-to-equity ratio | **0.44 : 1.00** | 0.41 : 1.00 |

## 30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Company's liabilities arising from financing activities.

| | **Interest-bearing Loans (See Note 14)** | **Advances from Related Parties (See Note 22)** | **Lease Liabilities (See Note 11)** | **Total** |
|---|---|---|---|---|
| Balance as of January 1, 2019 | P 3,942,307,693 | P 324,148,328 | P - | P 4,266,456,021 |
| Adoption of PFRS 16 | - | - | 610,257,526 | 610,257,526 |
| Cash flows from financing activities: | | | | |
| Additional borrowings | 2,000,000,000 | 5,731,148 | - | 2,005,731,148 |
| Repayments of borrowings | ( 1,461,538,462 ) | ( 102,387,990 ) | ( 115,965,842 ) | ( 1,679,892,294) |
| Interest paid | - | - | ( 35,937,092 ) | ( 35,937,092) |
| Non-cash financing activities – | | | | |
| Interest expense | - | 8,088,332 | - | 8,088,332 |
| Interest amortization on lease liabilities | - | - | 35,937,092 | 35,937,092 |
| Balance as of December 31, 2019 | **P 4,480,769,231** | **P 235,579,818** | **P 494,291,684** | **P 5,210,640,733** |
| Balance as of January 1, 2018 | P 4,903,846,154 | P 218,729,089 | P - | P 5,122,575,243 |
| Cash flows from financing activities: | | | | |
| Repayments of borrowings | ( 961,538,461 ) | ( 5,204,701 ) | - | ( 966,743,162) |
| Additional borrowings | - | 103,005,496 | - | 103,005,496 |
| Non-cash financing activities – | | | | |
| Interest expense | - | 7,618,444 | - | 7,618,444 |
| Balance as of December 31, 2018 | P 3,942,307,693 | P 324,148,328 | P - | P 4,266,456,021 |
| Balance as of January 1, 2017 | P 3,500,000,000 | P 177,734,773 | P - | P 3,677,734,773 |
| Cash flows from financing activities | | | | |
| Additional borrowings | 2,000,000,000 | 31,504,105 | - | 2,031,504,105 |
| Repayments of borrowings | ( 596,153,846 ) | ( 1,492,918 ) | - | ( 597,646,764) |
| Non-cash financing activities – | | | | |
| Interest expense | - | 10,983,129 | - | 10,983,129 |
| Balance as of December 31, 2017 | P 4,903,846,154 | P 218,729,089 | P - | P 5,122,575,243 |

## 31. OTHER DISCLOSURES

### *31.1 Other Information Required by the Securities and Exchange Commission*

RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code), took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no impact to the Company's financial statements.

### *31.2 Event after the End of the Reporting Period*

Subsequent to the end of the reporting period, the Company and other Philippine businesses have been significantly exposed to the risks brought about by the outbreak of the new coronavirus disease, COVID-19. Governmental efforts being implemented to control the spread of the virus include travel bans, quarantines, social distancing and suspension of non-essential services. The Company's management is carefully reviewing all rules, regulations, and orders and responding accordingly.

Though the disruption is currently expected to be temporary, the Company anticipates that these will have an adverse impact on economic and market conditions and affect its business. Work stoppage on construction sites and slowdown on the supply chain may potentially lead to delays on the targeted completion and turnover of projects.

While management currently believes that it has adequate liquidity and business plans to continue to operate the business and mitigate the risks associated with COVID-19, the ultimate impact of the pandemic is highly uncertain and subject to change. The severity of these consequences will depend on certain developments, including the duration and spread of the outbreak, valuation of assets, and impact on the Company's customers, suppliers, and employees. Specifically, demand for the Company's real estate properties for sale may be affected due to reduced liquidity of potential customers and slowdown of construction progress. Leasing operations shall likewise be affected due to limited operating hours and tenants' liquidity. Further, collection of outstanding receivables may be affected due to reduced liquidity of current customers and moratoriums on payment of rentals. Financial consequences of aforementioned impact are uncertain and cannot be predicted as of the date of the issuance of the Company's financial statements. Accordingly, management is not able to reliably estimate the impact of the outbreak on the Company's financial position and results of operation for future periods.

The Company would continue to conduct its business while placing paramount consideration on the health and welfare of its employees, customers, and other stakeholders. The Company has implemented measures to mitigate the transmission of COVID-19, such as by adjusting operating hours, making hand sanitizers available within its properties, increasing the frequency of disinfection of facilities, limiting face-to-face meetings, requiring temperature checks for employees and customers, and implementing health protocols for employees. The Company has also activated business continuity plans, both at the corporate level and business operations level, and conducted scenario planning and analysis to activate contingency plans.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, their impact was not reflected in the Company's financial statements as of and for the year ended December 31, 2019.

## 32. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding page is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing Revenue Regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 is as follows:

*(a) Output VAT*

| | Tax base | Output VAT |
|---|---|---|
| Real estate sales: | | |
| Taxable sales | P 2,334,695,377 | P 280,163,445 |
| Exempt sales | 326,290,335 | - |
| | 2,660,985,712 | 280,163,445 |
| Rental income and management and marketing income | 308,655,517 | 37,038,662 |
| | **P 2,969,641,229** | **P 317,202,107** |

The Company's exempt sales/receipts were determined pursuant to Section 109, *VAT Exempt Transactions*, of the 1997 National Internal Revenue Code.

The tax base is included as part of Real Estate Sales, Rental Income, Management and Marketing Income and Others in the statement of comprehensive income for the year ended December 31, 2019 and are based on the Company's gross receipts for the year; hence, may not be the same with the amounts accrued in the 2019 statement of comprehensive income.

The outstanding output VAT payable amounting to P10,402,625 as of December 31, 2019 is presented as part of Others under Trade and Other Payables account in the 2019 statement of financial position (see Note 15).

*(b) Input VAT*

The movement in input VAT for year ended December 31, 2019 is summarized below.

| | |
|---|---|
| Balance at beginning of year | P - |
| Capital goods not subject to amortization | 165,687 |
| Capital goods subject to amortization | 2,372,823 |
| Goods other than for resale or manufacture | 48,422,860 |
| Services lodged under other accounts | 198,157,561 |
| Amortization of deferred input VAT from previous period | 29,163,139 |
| Deferred input VAT on capital goods subject to amortization | ( 2,036,045) |
| Applied against exempt sales | ( 27,127,095) |
| Applied against output VAT | ( 249,118,930) |
| Balance at end of year | **P -** |

*(c) Taxes on Importation*

The Company did not have any importations for the year ended December 31, 2019; hence, there was no payment of customs duties and tariff fees.

*(d) Excise Tax*

The Company did not have any transactions in 2019, which are subject to excise tax.

*(e) Documentary Stamp Tax (DST)*

DST paid and accrued in 2019 is presented below.

| | Note | |
|---|---|---|
| Loan instruments | | P 15,000,000 |
| Others | | 148,415 |
| | 32(f) | **P 15,148,415** |

*(f) Taxes and Licenses*

The details of Taxes and licenses in 2019 are as follows:

| | Notes | |
|---|---|---|
| Business and local taxes | | P 22,285,794 |
| Real property taxes | | 15,013,453 |
| DST | 32(e) | 15,148,415 |
| Community tax certificate | | 1,359 |
| Others | | 64,368 |
| | 18 | **P 52,513,389** |

*(g) Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2019 are shown below.

| | |
|---|---|
| Expanded | P 68,268,578 |
| Compensation and employee benefits | 18,517,811 |
| | **P 86,786,389** |

The Company has no income payment subject to final withholding tax in 2019.

*(h) Deficiency Tax Assessments and Tax Cases*

As of December 31, 2019, the Company does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

GLOBAL-ESTATE RESORTS, INC.
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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN**

The management of **Global-Estate Resorts, Inc.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended **December 31, 2019**. Management is likewise responsible for all the information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value-added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statement for the year ended **December 31, 2019** and the accompanying Annual Income Tax Return are in accordance with the books and records of **Global-Estate Resorts, Inc.** complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuance of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) **Global-Estate Resorts, Inc.** has file all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due date and payable have been paid for the reporting period, except those contested in good faith.

**Andrew L. Tan**
Chairman of the Board

**Monica T. Salomon**
President

**Lailani V. Villanueva**
Chief Finance Officer

Reference No : 122000035689655
Date Filed : May 19, 2020 09:41 AM
Batch Number : 0

For BIR Use Only | BCS/ Item

1702-RT06/13P1

Republika ng Pilipinas
Kagawaran ng Pananalapi
Kawanihan ng Rentas Internas

# Annual Income Tax Return

**For Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate**

*Enter all required information in CAPITAL LETTERS. Mark applicable boxes with an "X". Two Copies MUST be filed with the BIR and one held by the taxpayer.*

BIR Form No. **1702-RT** June 2013 **Page 1**

| | | | |
|---|---|---|---|
| **1** For: Calendar / Fiscal<br>**2** Year Ended (MM/20YY): 12 2019 | **3** Amended Return? Yes / No | **4** Short Period Return? Yes / No | **5** Alphanumeric Tax Code (ATC)<br>IC055 Minimum Corporate Income Tax (MCIT)<br>IC010 CORPORATION IN GENERAL - JAN 1, 200 |

**Part I - Background Information**

| | |
|---|---|
| **6** Taxpayer Identification Number (TIN) | 000 - 426 - 523 - 000 |
| **7** RDO Code | 126 |
| **8** Date of Incorporation/Organization (MM/DD/YYYY) | |
| **9** Registered Name *(Enter only 1 letter per box using CAPITAL LETTERS)* | GLOBAL-ESTATE RESORTS, INC. |
| **10** Registered Address *(Indicate complete registered address)* | 16TH FLR ALLIANCE GLOBAL TOWER 36TH STREET COR 11TH AVENUE, BONIFACIO GLOBAL CITY FORT DIST. PHILIPPINES |
| **11** Contact Number | 6347419 |
| **12** Email Address | amalarcon@global-estate.ph |
| **13** Main Line of Business | REAL ESTATE BUYING, DEVELOPING, SUBDIVIDING, SELLING |
| **14** PSIC Code | 7012 |

**15** Method of Deductions: Itemized Deductions [Section 34 (A-J), NIRC] / Optional Standard Deduction (OSD) - 40% of Gross Income [Section 34(L), NIRC as amended by RA No. 9504]

**Part II - Total Tax Payable** *(Do NOT enter Centavos)*

| | |
|---|---|
| **16** Total Income Tax Due (Overpayment) *(From Part IV Item 44)* | 349,660,304 |
| **17** Less: Total Tax Credits/Payments *(From Part IV Item 45)* | 273,288,843 |
| **18** Net Tax Payable (Overpayment) *(Item 16 Less Item 17) (From Part IV Item 46)* | 76,371,461 |
| **19** Add: Total Penalties *(From Part IV Item 50)* | 0 |
| **20 TOTAL AMOUNT PAYABLE (Overpayment)** *(Sum of Item 18 and 19) (From Part IV Item 51)* | 76,371,461 |

**21** If Overpayment, mark "X" one box only *(Once the choice is made, the same is irrevocable)*

To be refunded / To be issued a Tax Credit Certificate (TCC) / To be carried over as tax credit next year/quarter

We declare under the penalties of perjury, that this annual return has been made in good faith, verified by us, and to the best of our knowledge and belief, is true and correct pursuant to the provisions of the National Internal Revenue Code, as amended, and the regulations issued under authority thereof. *(If Authorized Representative, attach authorization letter and indicate TIN)*

| | |
|---|---|
| Monica T. Salomon | Lallani V. Villanueva |
| Signature over printed name of President/Principal Officer/Authorized Representative | Signature over printed name of Treasurer/Assistant Treasurer |
| Title of Signatory: President | Number of pages filed: 8 |

| | | | |
|---|---|---|---|
| **22** Community Tax Certificate (CTC) Number / SEC Reg No. | 00092318 | **23** Date of Issue (MM/DD/YYYY) | 01/10/2020 |
| **24** Place of Issue | CITY OF TAGUIG | **25** Amount, if CTC | 10,500 |

**Part III - Details of Payment**

| Details of Payment | Drawee Bank/Agency | Number | Date *(MM/DD/YYYY)* | Amount |
|---|---|---|---|---|
| **26** Cash/Bank Debit Memo | | | | 0 |
| **27** Check | | | | 0 |
| **28** Tax Debit Memo | | | | 0 |
| **29** Others *(Specify Below)* | | | | |
| | | | | 0 |

| | |
|---|---|
| Machine Validation/Revenue Official Receipts Details *(if not filed with an Authorized Agent Bank)* | *Stamp of receiving Office/AAB and Date of Receipt (RO's Signature/Bank Teller's Initial)* |

# Annual Income Tax Return
Page 2

BIR Form No. **1702-RT** June 2013

1702-RT06/13P2

| Taxpayer Identification Number (TIN) | Registered Name |
|---|---|
| 000 - 426 - 523 - 000 | GLOBAL-ESTATE RESORTS, INC. |

**Part IV - Computation of Tax** *(Do NOT enter Centavos)*

| | | |
|---|---|---|
| **30** Net Sales/Revenues/Receipts/Fees *(From Schedule 1 Item 6)* | | 1,982,555,300 |
| **31** Less: Cost of Sales/Services *(From Schedule 2 Item 27)* | | 40,267,051 |
| **32** Gross Income from Operation *(Item 30 Less Item 31)* | | 1,942,288,249 |
| **33** Add: Other Taxable Income Not Subjected to Final Tax *(From Schedule 3 Item 4)* | | 201,870,624 |
| **34 Total Gross Income** *(Sum of Items 32 & 33)* | | 2,144,158,873 |
| Less: Deductions Allowable under Existing Law | | |
| **35** Ordinary Allowable Itemized Deductions *(From Schedule 4 Item 40)* | 978,624,528 | |
| **36** Special Allowable Itemized Deductions *(From Schedule 5 Item 5)* | 0 | |
| **37** NOLCO *(only for those taxable under Sec. 27(A to C); Sec. 28(A)(1) & (A)(6)(b) of the tax Code) (From Schedule 6A Item 8D)* | 0 | |
| **38** Total Itemized Deductions *(Sum of Items 35 to 37)* | 978,624,528 | |
| ***OR** [in case taxable under Sec 27(A) & 28(A)(1)]* | | |
| **39** Optional Standard Deduction *(40% of Item 34)* | 0 | |
| **40 Net Taxable Income** *(Item 34 Less Item 38 OR 39)* | | 1,165,534,345 |
| **41** Income Tax Rate | | **30.0%** |
| **42** Income Tax Due other than MCIT *(Item 40 x Item 41)* | | 349,660,304 |
| **43** Minimum Corporate Income Tax (MCIT) *(2% of Gross Income in Item 34)* | | 42,883,177 |
| **44 Total Income Tax Due** *(Normal Income Tax in Item 42 or MCIT in Item 43, whichever is higher) (To part II Item 16)* | | 349,660,304 |
| **45** Less: Total Tax Credits/Payments *(From Schedule 7 Item 12) (To Part II Item 17)* | | 273,288,843 |
| **46 Net Tax Payable (Overpayment)** *(Item 44 Less Item 45) (To Part II Item 18)* | | 76,371,461 |
| **Add Penalties** | | |
| **47** Surcharge | 0 | |
| **48** Interest | 0 | |
| **49** Compromise | 0 | |
| **50 Total Penalties** *(Sum of Items 47 to 49) (To part II Item 19)* | | 0 |
| **51 Total Amount Payable (Overpayment)** *(Sum Item 46 & 50) (To Part II Item 20)* | | 76,371,461 |

**Part V - Tax Relief Availment** *(Do NOT enter Centavos)*

| | |
|---|---|
| **52** Special Allowable Itemized Deductions *(30% of Item 36)* | 0 |
| **53** Add: Special Tax Credits *(From Schedule 7 Item 9)* | 0 |
| **54 Total Tax Relief Availment** *(Sum of Items 52 & 53)* | 0 |

**Part VI - Information - External Auditor/Accredited Tax Agent**

**55** Name of External Auditor/Accredited Tax Agent
PUNONGBAYAN AND ARAULLO

**56** TIN 000 - 492 - 195 - 000

**57** Name of Signing Partner *(If External Auditor is a Partnership)*
RENAN A. PIAMONTE

**58** TIN 000 - 221 - 843 - 037

| **59** BIR Accreditation No. | **60** Issue Date *(MM/DD/YYYY)* | **61** Expiry Date *(MM/DD/YYYY)* |
|---|---|---|
| 08 - 002511 - 037 - 2019 | 09/05/2019 | 09/04/2022 |

# Annual Income Tax Return

**Page 3 - Schedules 1 & 2**

BIR Form No. **1702-RT** June 2013

1702-RT06/13P3

| Taxpayer Identification Number (TIN) | Registered Name |
|---|---|
| 000 - 426 - 523 - 000 | GLOBAL-ESTATE RESORTS, INC. |

**Schedule 1 - Sales/Revenues/Receipts/Fees** *(Attach additional sheet/s, if necessary)*

| | |
|---|---|
| **1** Sale of Goods/Properties | 1,826,299,479 |
| **2** Sale of Services | 0 |
| **3** Lease of Properties | 156,255,821 |
| **4** Total *(Sum of Items 1 to 3)* | 1,982,555,300 |
| **5** Less: Sales Returns, Allowances and Discounts | 0 |
| **6 Net Sales/Revenues/Receipts/Fees** *(Item 4 Less Item 5) (To Part IV Item 30)* | 1,982,555,300 |

**Schedule 2 - Cost of Sales** *(Attach additional sheet/s, if necessary)*

**Schedule 2A - Cost of Sales (For those Engaged in Trading)**

| | |
|---|---|
| **1** Merchandise Inventory - Beginning | 0 |
| **2** Add: Purchases of Merchandise | 0 |
| **3** Total Goods Available for Sale *(Sum of Items 1 & 2)* | 0 |
| **4** Less: Merchandise Inventory, Ending | 0 |
| **5** Cost of Sales *(Item 3 Less Item 4) (To Schedule 2 Item 27 )* | 0 |

**Schedule 2B - Cost of Sales (For those Engaged in Manufacturing)**

| | |
|---|---|
| **6** Direct Materials, Beginning | 0 |
| **7** Add: Purchases of Direct Materials | 0 |
| **8** Materials Available for Use *(Sum of Items 6 & 7)* | 0 |
| **9** Less: Direct Materials, Ending | 0 |
| **10** Raw Materials Used *(Item 8 Less Item 9)* | 0 |
| **11** Direct Labor | 0 |
| **12** Manufacturing Overhead | 0 |
| **13** Total Manufacturing Cost *(Sum of Items 10, 11 & 12)* | 0 |
| **14** Add: Work in Process, Beginning | 0 |
| **15** Less: Work in Process, Ending | 0 |
| **16** Cost of Goods Manufactured *(Sum of Items 13 & 14 Less Item 15)* | 0 |
| **17** Finished Goods, Beginning | 0 |
| **18** Less: Finished Goods, Ending | 0 |
| **19 Cost of Goods Manufactured and Sold** *(Sum of Items 16 & 17 Less Item 18) (To Sched. 2 Item 27)* | 0 |

**Schedule 2C - Cost of Services**
**(For those Engaged in Services, indicate only those directly incurred or related to the gross revenue from rendition of services)**

| | |
|---|---|
| **20** Direct Charges - Salaries, Wages and Benefits | 0 |
| **21** Direct Charges - Materials, Supplies and Facilities | 0 |
| **22** Direct Charges - Depreciation | 40,267,051 |
| **23** Direct Charges - Rental | 0 |
| **24** Direct Charges - Outside Services | 0 |
| **25** Direct Charges - Others | 0 |
| **26 Total Cost of Services** *(Sum of Items 20 to 25) (To Item 27)* | 40,267,051 |

| | |
|---|---|
| **27 Total Cost of Sales/Services** *(Sum of Items 5, 19 & 26, if applicable) (To Part IV Item 31)* | 40,267,051 |

# Annual Income Tax Return
**Page 4 - Schedules 3 & 4**

BIR Form No. **1702-RT** June 2013

1702-RT06/13P4

| Taxpayer Identification Number (TIN) | Registered Name |
|---|---|
| 000 - 426 - 523 - 000 | GLOBAL-ESTATE RESORTS, INC. |

**Schedule 3 - Other Taxable Income Not Subjected to Final Tax** *(Attach additional sheet/s, if necessary)*

| | |
|---|---|
| 1 MANAGEMENT AND MARKETING INCOME | 183,252,526 |
| 2 FINANCE INCOME | 7,139,900 |
| 3 OTHER INCOME | 11,478,198 |
| **4 Total Other Taxable Income Not Subjected to Final Tax** *(Sum of Items 1 to 3) (To Part IV Item 33)* | 201,870,624 |

**Schedule 4 - Ordinary Allowable Itemized Deductions** *(Attach additional sheet/s, if necessary)*

| | |
|---|---|
| **1** Advertising and Promotions | 6,911,706 |
| Amortizations *(Specify on Items 2, 3 & 4)* | |
| **2** | 0 |
| **3** | 0 |
| **4** | 0 |
| **5** Bad Debts | 0 |
| **6** Charitable Contributions | 0 |
| **7** Commissions | 232,889,773 |
| **8** Communication, Light and Water | 28,030,776 |
| **9** Depletion | 0 |
| **10** Depreciation | 37,992,835 |
| **11** Director's Fees | 400,000 |
| **12** Fringe Benefits | 0 |
| **13** Fuel and Oil | 0 |
| **14** Insurance | 1,228,320 |
| **15** Interest | 135,874,775 |
| **16** Janitorial and Messengerial Services | 7,657,109 |
| **17** Losses | 0 |
| **18** Management and Consultancy Fee | 14,202,024 |
| **19** Miscellaneous | 5,060,384 |
| **20** Office Supplies | 12,558,677 |
| **21** Other Services | 0 |
| **22** Professional Fees | 40,482,615 |
| **23** Rental | 90,100,067 |
| **24** Repairs and Maintenance - (Labor or Labor & Materials) | 0 |
| **25** Repairs and Maintenance - (Materials/Supplies) | 6,079,644 |
| **26** Representation and Entertainment | 1,293,931 |
| **27** Research and Development | 0 |
| **28** Royalties | 0 |
| **29** Salaries and Allowances | 263,691,902 |

# Annual Income Tax Return
**Page 5 - Schedules 4, 5 & 6**

BIR Form No. **1702-RT** June 2013

1702-RT06/13P5

| Taxpayer Identification Number (TIN) | Registered Name |
|---|---|
| 000 - 426 - 523 - 000 | GLOBAL-ESTATE RESORTS, INC. |

**Schedule 4 - Ordinary Allowable Itemized Deductions** *(Continued from Previous Page)*

| | |
|---|---|
| **30** Security Services | 7,917,610 |
| **31** SSS, GSIS, Philhealth, HDMF and Other Contributions | 0 |
| **32** Taxes and Licenses | 50,565,245 |
| **33** Tolling Fees | 0 |
| **34** Training and Seminars | 0 |
| **35** Transportation and Travel | 15,576,874 |
| Others *[Specify below; Add additional sheet(s), if necessary]* | |
| **36** SUBSCRIPTION AND MEMBERSHIP DUE | 16,635,097 |
| **37** REGISTRATION AND OTHER FEES | 1,948,145 |
| **38** AGENCY FEES | 1,527,019 |
| **39** | 0 |
| **40 Total Ordinary Allowable Itemized Deductions** *(Sum of Items 1 to 39) (To Part IV Item 35)* | 978,624,528 |

**Schedule 5 - Special Allowable Itemized Deductions** *(Attach additional sheet/s, if necessary)*

| | Description | Legal Basis | Amount |
|---|---|---|---|
| 1 | | | 0 |
| 2 | | | 0 |
| 3 | | | 0 |
| 4 | | | 0 |
| **5 Total Special Allowable Itemized Deductions** *(Sum of Items 1 to 4) (To Part IV Item 36)* | | | 0 |

**Schedule 6 - Computation of Net Operating Loss Carry Over (NOLCO)**

| | |
|---|---|
| **1** Gross Income *(From Part IV Item 34)* | 0 |
| **2** Less: Total Deductions Exclusive of NOLCO & Deduction Under Special Law | 0 |
| **3** Net Operating Loss *(To Schedule 6A)* | 0 |

**Schedule 6A - Computation of Available Net Operating Loss Carry Over (NOLCO)**

| | Net Operating Loss | | B) NOLCO Applied Previous Year |
|---|---|---|---|
| | Year Incurred | A) Amount | |
| 4 | | 0 | 0 |
| 5 | | 0 | 0 |
| 6 | | 0 | 0 |
| 7 | | 0 | 0 |

**Continuation of Schedule 6A** *(Item numbers continue from the table above)*

| | C) NOLCO Expired | D) NOLCO Applied Current Year | E) Net Operating Loss (Unapplied) |
|---|---|---|---|
| 4 | 0 | 0 | 0 |
| 5 | 0 | 0 | 0 |
| 6 | 0 | 0 | 0 |
| 7 | 0 | 0 | 0 |
| **8 Total NOLCO** *(Sum of Items 4D to 7D) (To Part IV Item 37)* | | 0 | |

# Annual Income Tax Return
**Page 6 - Schedules 7, 8 & 9**

BIR Form No. **1702-RT** June 2013

1702-RT06/13P

| Taxpayer Identification Number (TIN) | Registered Name |
|---|---|
| 000 -426 -523 -000 | GLOBAL-ESTATE RESORTS, INC. |

**Schedule 7 - Tax Credits/Payments (attach proof)** *(Attach additional sheet/s, if necessary)*

| | |
|---|---|
| **1** Prior Year's Excess Credits Other Than MCIT | 0 |
| **2** Income Tax Payment under MCIT from Previous Quarter/s | 0 |
| **3** Income Tax Payment under Regular/Normal Rate from Previous Quarter/s | 19,926,754 |
| **4** Excess MCIT Applied this Current Taxable Year *(From Schedule 8 Item 4F)* | 0 |
| **5** Creditable Tax Withheld from Previous Quarter/s per BIR Form No. 2307 | 131,051,456 |
| **6** Creditable Tax Withheld per BIR Form No. 2307 for the 4th Quarter | 122,310,633 |
| **7** Foreign Tax Credits, if applicable | 0 |
| **8** Tax Paid in Return Previously Filed, if this is an Amended Return | 0 |
| **9** Special Tax Credits *(To Part V Item 53)* | 0 |
| Other Credits/Payments *(Specify)* | |
| **10** | 0 |
| **11** | 0 |
| **12 Total Tax Credits/Payments** *(Sum of Items 1 to 11) (To Part IV Item 45)* | 273,288,843 |

**Schedule 8 - Computation of Minimum Corporate Income Tax (MCIT)**

| | Year | A) Normal Income Tax as Adjusted | B) MCIT | C) Excess MCIT over Normal Income Tax |
|---|---|---|---|---|
| **1** | | 0 | 0 | 0 |
| **2** | | 0 | 0 | 0 |
| **3** | | 0 | 0 | 0 |

Continuation of Schedule 8 *(Line numbers continue from table above)*

| | D) Excess MCIT Applied/Used for Previous Years | E) Expired Portion of Excess MCIT | **F) Excess MCIT Applied this Current Taxable Year** | G) Balance of Excess MCIT Allowable as Tax Credit for Succeeding Year/s |
|---|---|---|---|---|
| **1** | 0 | 0 | 0 | 0 |
| **2** | 0 | 0 | 0 | 0 |
| **3** | 0 | 0 | 0 | 0 |
| **4 Total Excess MCIT** *(Sum of Column for Items 1F to 3F) (To Schedule 7 Item 4)* | | | 0 | |

**Schedule 9 - Reconciliation of Net Income per Books Against Taxable Income** *(Attach additional sheet/s, if necessary)*

| | |
|---|---|
| **1** Net Income/(Loss) per books | 783,988,545 |
| Add: Non-deductible Expenses/Taxable Other Income | |
| **2** TAX EXPENSE | 355,602,325 |
| **3** OTHERS | 252,436,671 |
| **4 Total** *(Sum of Items 1 to 3)* | 1,392,027,541 |
| Less: A) Non-taxable Income and Income Subjected to Final Tax | |
| **5** DIVIDEND INCOME | 50,000,000 |
| **6** OTHERS | 164,857,875 |
| B) Special Deductions | |
| **7** COMMISSION EXPENSE | 11,635,321 |
| **8** | 0 |
| **9 Total** *(Sum of Items 5 to 8)* | 226,493,196 |
| **10 Net Taxable Income (Loss)** *(Item 4 Less Item 9)* | 1,165,534,345 |

# Annual Income Tax Return

**Page 7 - Schedules 10 & 11**

BIR Form No. **1702-RT** June 2013

1702-RT06/13P7

| Taxpayer Identification Number (TIN) | Registered Name |
|---|---|
| 000 -426 -523 -000 | GLOBAL-ESTATE RESORTS, INC. |

## Schedule 10 - BALANCE SHEET

| Assets | |
|---|---|
| **1** Current Assets | 21,722,589,175 |
| **2** Long-Term Investment | 4,445,713,299 |
| **3** Property, Plant and Equipment - Net | 308,436,823 |
| **4** Long-Term Receivables | 2,086,089,527 |
| **5** Intangible Assets | 0 |
| **6** Other Assets | 2,151,344,129 |
| **7 Total Assets** *(Sum of Items 1 to 6)* | 30,714,172,953 |

| Liabilities and Equity | |
|---|---|
| **8** Current Liabilities | 4,221,147,697 |
| **9** Long-Term Liabilities | 3,000,000,000 |
| **10** Deferred Credits | 0 |
| **11** Other Liabilities | 2,100,318,760 |
| **12 Total Liabilities** *(Sum of Items 8 to 11)* | 9,321,466,457 |
| **13** Capital Stock | 10,986,000,000 |
| **14** Additional Paid-in Capital | 4,747,739,274 |
| **15** Retained Earnings | 5,658,967,222 |
| **16 Total Equity** *(Sum of Items 13 to 15)* | 21,392,706,496 |
| **17 Total Liabilities and Equity** *(Sum of Items 12 & 16)* | 30,714,172,953 |

**Schedule 11-** ☑ **Stockholders** ☐ **Partners** ☐ **Members Information** (Top 20 Stockholders, partners or Members)

(On column 3 enter the amount of capital contribution and on the last column enter the percentage this represents on the entire ownership)

| REGISTERED NAME | TIN | Capital Contribution | % to Total |
|---|---|---|---|
| MEGAWORLD CORPORATION | 000 - 000 - 471 - 103 | 9,042,732,139 | 82.31 |
| PCD NOMINEE FILIPINO | 004 - 774 - 849 - 000 | 1,747,579,863 | 15.91 |
| FIL-ESTATE MANAGEMENT | 000 - 000 - 053 - 966 | 38,000,159 | 0.35 |
| F. YAP SECURITIES INC | 000 - 000 - 000 - 000 | 32,947,000 | 0.3 |
| PCD NOMINEE FOREIGN | 004 - 774 - 849 - 000 | 27,716,062 | 0.25 |
| GREENFIELD DEVELOPMENT | 000 - 000 - 122 - 954 | 8,640,000 | 0.08 |
| JOHN T. LAO | 000 - 106 - 962 - 777 | 8,000,100 | 0.07 |
| THE ANDRESONS GROUP | 000 - 298 - 167 - 000 | 8,000,000 | 0.07 |
| LUCIO W. YAN | 000 - 102 - 646 - 906 | 5,755,000 | 0.05 |
| ROMEO G. ROXAS | 000 - 106 - 207 - 384 | 3,716,000 | 0.03 |
| AVESCO MARKETING | 040 - 000 - 400 - 152 | 3,512,106 | 0.03 |
| WILBUR CHAN | 000 - 113 - 858 - 316 | 2,611,825 | 0.02 |
| GILMORE PROPERTY MAR | 000 - 005 - 039 - 236 | 1,983,000 | 0.02 |
| FEDERAL HOMES INC. | 000 - 000 - 159 - 013 | 1,939,860 | 0.02 |
| FRITZ L. DY | 000 - 908 - 157 - 806 | 1,813,500 | 0.02 |
| DYNALAND PROPERTIES | 000 - 106 - 808 - 899 | 1,700,001 | 0.02 |
| MAXIMINO S. UY OR LI | 000 - 106 - 808 - 899 | 1,478,400 | 0.01 |
| EQL PROPERTIES, INC. | 000 - 000 - 000 - 000 | 1,317,420 | 0.01 |
| BINGSON U. TECOSN | 000 - 000 - 000 - 000 | 1,239,000 | 0.01 |
| EMILY BENEDICTO | 000 - 000 - 000 - 000 | 1,141,000 | 0.01 |

# Annual Income Tax Return
**Page 8 - Schedules 12 & 13**

BIR Form No. **1702-RT** June 2013

1702-RT06/13P8

| Taxpayer Identification Number (TIN) | Registered Name |
|---|---|
| 000 - 426 523 - 000 | GLOBAL-ESTATE RESORTS, INC. |

**Schedule 12 - Supplemental Information** ***(Attach additional sheet/s, if necessary)***

| I) Gross Income/ Receipts Subjected to Final Withholding | A) Exempt | B) Actual Amount/Fair Market Value/Net Capital Gains | C) Final Tax Withheld/Paid |
|---|---|---|---|
| 1 Interests | 0 | 14,047,308 | 2,801,901 |
| 2 Royalties | 0 | 0 | 0 |
| 3 Dividends | 0 | 0 | 0 |
| 4 Prizes and Winnings | 0 | 0 | 0 |

| II) Sale/Exchange of Real properties | A) Sale/Exchange #1 | B) Sale/Exchange #2 |
|---|---|---|
| 5 Description of Property *(e.g. land, improvement, etc.)* | | |
| 6 OCT/TCT/CCT/Tax Declaration No. | | |
| 7 Certificate Authorizing Registration (CAR) No | | |
| 8 Actual Amount/Fair Market Value/Net Capital Gains | | |
| 9 Final Tax Withheld/Paid | | |

| III) Sale/Exchange of Shares of Stock | A) Sale/Exchange #1 | B) Sale/Exchange #2 |
|---|---|---|
| 10 Kind*(PS/CS)*/Stock Certificate Series No. | | |
| 11 Certificate Authorizing Registration (CAR) No. | | |
| 12 Number of Shares | | |
| 13 Date of Issue (MM/DD/YYYY) | | |
| 14 Actual Amount/Fair Market Value/Net Capital Gains | | |
| 15 Final Tax Withheld/Paid | | |

| IV) Other Income *(Specify)* | A) Other Income #1 | B) Other Income #2 |
|---|---|---|
| 16 Other Income Subject to Final Tax Under Sections 57(A)/127/others of the Tax Code, as amended *(Specify)* | | |
| 17 Actual Amount/Fair Market Value/Net Capital Gains | | |
| 18 Final Tax Withheld/Paid | | |

| | |
|---|---|
| **19 Total Final Tax Withheld Paid** *(Sum of Items 1C to 4C, 9A, 9B, 15A, 15B, 18A & 18B)* | 2,801,901 |

**Schedule 13 - Gross Income/Receipts Exempt from Income Tax**

| | |
|---|---|
| 1 Return of Premium *(Actual Amount/Fair Market Value)* | 0 |

| I) Personal/Real Properties Received thru Gifts, Bequests, and Devices | A) Personal/Real Properties #1 | B) Personal/Real Properties #2 |
|---|---|---|
| 2 Description of Property *(e.g. land, improvement, etc.)* | | |
| 3 Modes of Transfer *(e.g Donation)* | | |
| 4 Certificate Authorizing Registration (CAR) No. | | |
| 5 Actual Amount/Fair Market Value | | |

| II) Other Exempt Income/Receipts | A) Other Exempt Income #1 | B) Other Exempt Income #2 |
|---|---|---|
| 6 Other Exempt Income/Receipts Under Sec. 32 (B) of the Tax Code, as amended *(Specify)* | | |
| 7 Actual Amount/Fair Market Value/Net Capital Gains | | |

| | |
|---|---|
| 8 Total Income Receipts Exempt From Income Tax *(Sum of Items 1, 5A, 5B, 7A & 7B)* | 0 |

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
**BUREAU OF INTERNAL REVENUE**

# FILING REFERENCE NO.

| | |
|---|---|
| **TIN** | : 000-426-523-000 |
| **Name** | : GLOBAL-ESTATE RESORTS, INC. |
| **RDO** | : 126 |
| **Form Type** | : 1702 |
| **Reference No.** | : 122000035689655 |
| **Amount Payable (Over Remittance)** | : 76,371,461.00 |
| **Accounting Type** | : C - Calendar |
| **For Tax Period** | : 12/31/2019 |
| **Date Filed** | : 05/19/2020 |
| **Tax Type** | : IT |

Proceed to Payment

[ BIR Main | eFPS Login | User Menu | Help ]

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## UBP Payment Status

| | |
|---|---|
| Filing Reference Number | 122000035689655 |
| Payment Transaction Number | 204323766 |
| TIN | 000426523 |
| Branch Number | 000 |
| Return Period | 12/31/2019 |
| Tax Type | IT |
| Amount Due | 76,371,461.00 |
| Actual Amount Paid | 76,371,461.00 |
| Transacting Bank's Code | 043000 |
| Depository Bank's Code | 043000 |
| UBP Acknowledgement Number | 204323766556785 4NA |
| Payment Transaction Date | 05/20/2020 |

Your payment instruction in favor of BIR has been successfully submitted to Union Bank and the corresponding amount has been debited from your account. For your protection, payment shall be credited to BIR upon successful transaction validation.
(Cut-Off time for same-day payments is 9:30 PM.)

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