

# COVER SHEET

**A S O 9 4 0 0 4 4 6 2**

S.E.C. Registration Number

**G L O B A L - E S T A T E R E S O R T S , I N C .**

(Company's Full Name)

**9 T H F L O O R E A S T W O O D G L O B A L P L A Z A**

**P A L M T R E E A V E N U E B A G U M B A Y A N**

**1 1 1 0 Q U E Z O N C I T Y**

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

**LAILANI V. VILLANUEVA**

Contact Person

**328-4374**

Company Telephone Number

**0 6**

Month

Calendar Year

**3 0**

Day

**SEC FORM 17-Q**  
**(for the quarter ended 30 June 2021)**

FORM TYPE

**0 6**

Month

annual meeting

**2 4**

Day

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/ Section

Total Amount of Borrowings

Domestic

Foreign

\*\*\*\*\*

To be accomplished by SEC Personnel concerned

File Number

LCU

Docimnt I.D.

Cashier

STAMPS

SEC Number **AS094004462**  
File Number \_\_\_\_\_

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

**9/F Eastwood Global Plaza, Palm Tree Avenue, Eastwood City, Bagumbayan, Quezon**  
**City**  
(Company's Address)

**(632) 5328-4370 to 78**  
(Tel. No.)

**December 31, 2021**  
(Calendar Year Ending)

**SEC FORM 17-Q (2<sup>nd</sup> QUARTER)**  
(Form Type)

**June 30, 2021**  
(Period ended date)

**REGISTERED AND LISTED**  
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended .....: **June 30, 2021**  
2. Commission identification number..... : **AS094004462**  
3. BIR Tax Identification No.....: **000-426-523-V**  
4. Exact name of issuer as specified in its charter

**GLOBAL-ESTATE RESORTS, INC**

5. Province, country or other jurisdiction of incorporation or organization  
**Quezon City, Philippines**

6. Industry Classification Code:  (SEC Use Only)

7. Address of issuer's principal office Postal Code  
**9/F Eastwood Global Plaza, Palm Tree Avenue,**  
**Eastwood City, Bagumbayan, Quezon City** **1110**

8. Issuer's telephone number, including area code  
**Tel. No. (632) 5328-4370 to 78**

9. Former name, former address and former fiscal year, if changed since last report  
**16th Floor, Alliance Global Tower, 36<sup>th</sup> St. cor. 11<sup>th</sup> Ave. Uptown Bonifacio, Taguig City**

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

Title of each class	Number of shares of common stock outstanding and amount of debt outstanding
<b>Common stock</b>	<b>10,986,000,000</b>
<b>Loans payable</b>	<b>₱ 4,974,264,700</b>
<b>Bonds payable</b>	<b>₱ -</b>

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

Yes  No

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

**Philippine Stock Exchange (PSE)** **Common stock**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports)

Yes  No

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

Yes  No

## PART I--FINANCIAL INFORMATION

### Item 1. Financial Statements.

Please refer to attached Annex A-1 for the Consolidated Statements of Financial Position as of June 30, 2021 and December 31, 2020; Annex A-2 for the Consolidated Statements of Comprehensive Income for the six-month period ended June 30, 2021 and June 30, 2020; Annex A-3 for Consolidated Statements of Changes in Stockholders' Equity for the six-month period ended June 30, 2021 and June 30, 2020; Annex A-4 for the Consolidated Statements of Cash Flows for the six-month period ended June 30, 2021 and June 30, 2020 and Annex A-5 for the Aging of Receivables for the 2nd Quarter ended June 30, 2021.

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

Refer to attached Analysis of Operations.

## PART II--OTHER INFORMATION

Not Applicable.

### SIGNATURES

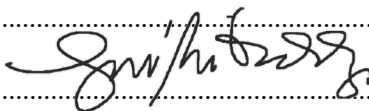
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Principal Financial/Accounting Officer/  
Controller/Authorized Representative:

Ms. Lailani V. Villanueva

.....  
Title : Chief Financial Officer

Signature :



.....  
Date : August 5, 2021  
.....

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**  
**MANAGEMENT DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FOR THE 2<sup>nd</sup> QUARTER ENDED June 30, 2021**

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**Impact of COVID-19 Pandemic on the Group's Business**

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Group's business operations.

The following are the impact of the COVID-19 pandemic to the Group's businesses in 6 month period ending June 30, 2021:

Real Estate Sales

Real estate sales ended 16% lower due to lesser accounts that meet 10% collection, limited selling activities and restricted construction activities.

Lease of Office and Commercial Spaces

Rental income dropped by 45% primarily due to limited operation of mall and commercial spaces, rent concessions and lower foot traffic. Other observable impacts are presented below.

- registration of early termination and restructuring of lease contracts;
- due to various community quarantine measures, resulting in a decline in foot traffic;
- waiver of rental charges of tenants and retail partners on its mall and commercial centers for a certain period of time.

Hotel Operations

Hotel revenues shrank by 72% as a result of temporary closure of hotels, travel bans and limited hotel operations in accordance with quarantine guidelines. Occupancy rates dropped significantly due to travel restrictions and cancellation of bookings and meetings, incentives, conventions and exhibitions activities;

In response to these matters, the Group has taken the following actions:

- maximized digital platforms to sell real estate projects in order to limit face-to-face engagements;
- focused on sale of residential and commercial lots outside Metro Manila to meet a robust demand for these products;
- assisted tenants in implementing social distancing measures;
- expanded outdoor dining areas in lifestyle malls to meet customer demand for alfresco dining;
- continued working closely with tenants to determine and address their needs; and,
- launched E-Concierge, a mobile application that allows contactless interaction between guests and hotel staff from check-in to check-out, including virtual ordering of food from various food and beverage outlets inside the hotels;

Based on the above actions and measures taken by management to mitigate the adverse effects of the pandemic, it projects that the Group would continue to report positive results of operations and would remain liquid to meet current obligations as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

## **REVIEW OF RESULTS OF OPERATIONS**

*(Comparing balances for the 6-month period ended June 30, 2021 and 6-month period ended June 30, 2020)*

Consolidated revenues for the six-month period ended June 30, 2021 amounted to Php2.43 billion. The Company's real estate sale of Php1.8 billion came mainly from sale of lots in Newcoast Village in Malay, Aklan, Sta. Barbara Heights in Iloilo City, Twin Lakes Domaine Le Jardin and 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. Hotel revenues as of June 30, 2021 amounted to Php44.7 million, a decrease of 72% from Php161.5 million as of June 30, 2020 mainly due to travel bans and limited hotel operations in accordance with quarantine guidelines. Rental income as of June 30, 2021 amounted to Php190.5 million, a decrease of 45% from Php347 million as of June 30, 2020 effect also of the COVID-19 pandemic. Balance of revenues was contributed by marketing fees of Php80.7 million, finance and other income of Php224.2 million, and Php70.6 million service income.

Cost and expenses posted a decrease of Php398.4 million or 18% from Php2.19 billion in June 30, 2020 to Php1.79 billion as of June 30, 2021 mainly due to decrease in cost of hotel operations, operating expense, finance cost and other charges and income tax expense.

The company posted a Php643.3 million Net Income or 12% decrease for the period ended June 30, 2021, as compared to a Php728.4 million net income realized as of June 30, 2020.

Major Movements of Income Statement Accounts are as follows:

*(Increase/ decrease of 5% or more versus June 30, 2020)*

- 16% Decrease on Real estate sales – mainly due to decrease on real estate sales that reach 10% collection and lower percentage of completion of uncompleted projects because of community quarantine
- 72% Decrease in Hotel revenues – mainly due to lower occupancy rate
- 45% Decrease in Rental income – due to decrease in occupancy rate, rent concessions and lower foot traffic in retail properties
- 91% Increase in Marketing fees – due increase in marketing income from sale of lots of joint venture partner.
- 83% Increase in Finance and other income – mainly due to increase in other income
- 6% Decrease in Cost of real estate sales – directly related to decrease on real estate sales for the period.
- 7% Increase in Cost rentals and services - mainly due to increase in cost related to service income.

- 45% Decrease in Cost of hotel operations – due to decrease in hotel revenue.
- 17% Decrease in Operating expenses – mainly due to decrease in expenses directly related to decrease in revenue and the Group implements cost reduction measures.
- 53% Decrease in Finance cost and other charges – mainly due to decrease in interest rate and payment of principal. Interest from new loan is capitalized to the cost of the project.
- 40% Decrease in Income tax expense – effect of lower tax rate under CREATE law and decrease of taxable income.

## **REVIEW OF FINANCIAL CONDITION**

The Group's financial position remained stable. Total assets as of June 30, 2021, Php50.8 billion compared to Php50.6 billion as of December 31, 2020, posted an increase of Php0.19 billion.

Cash and cash equivalents decreased by 26% mainly due to payments to contractors and suppliers and partial payment of Interest-bearing loans and borrowings, from Php2.24 billion as of December 2020 to Php1.66 billion as of June 2021. Contract assets increased by 25%, from Php2.8 billion as of December 2020 to Php3.5 billion as of June 2021 due to additional sales from uncompleted projects with higher percentage of completion than percentage of collection.

Interest bearing loans and borrowings decreased from Php5.33 billion as of December 2020 to Php4.97 billion as of June 2021 or 7% decrease due to partial payment of principal. Contract liabilities decreased by 9% due to decrease of sales from uncompleted projects with lower percentage of completion than percentage of collection. Due to joint venture partners decreased from Php410 million as of December 2020 to Php315 million as of June 2021 or 23% decrease due to payments made to joint venture partners. Other non-current liabilities increased from Php731 million as of December 2020 to Php821 million as of June 2021 due to increase in security deposits.

Shareholders' Equity increased from Php34.6 billion as of December 2020 to Php35.2 billion as of June 2021 mainly due to the income generated for the period.

Major movements of Balance Sheet Accounts are as follows:

- 26% Decrease in Cash and cash equivalent – mainly due to payments to contractors and suppliers and partial payment of Interest-bearing loans and borrowings.
- 25% Increase in Contract assets – due to additional sales from uncompleted projects with higher percentage of completion than percentage of collection.
- 7% Decrease in Interest bearing loans and borrowings – due to partial payment of principal of interest-bearing loans.
- 9% Decrease in Contract liabilities – due to decrease of sales from uncompleted projects with lower percentage of completion than percentage of collection.
- 23% Decrease in Due to joint venture partners – due to payments made to joint venture partners.
- 12% Increase in Other non-current liability – due to increase in security deposits.

## **KEY PERFORMANCE INDICATORS**

### **LIQUIDITY RATIOS**

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Current Ratio	4.46	4.20
Quick Ratio	1.34	1.28

*Current Ratio (Current Assets/Current Liabilities)*

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

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

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

### **LEVERAGE OR LONG-RANGE SOLVENCY RATIOS**

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Debt to Total Assets	31%	32%
Equity to Total Assets	69%	68%
Debt to Equity	44%	46%
Asset to Equity	1.44	1.46

*Debt to Total Assets*

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

*Equity to Total Assets*

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

*Debt to Equity*

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

*Asset To Equity (Total Assets/Total Owner's Equity)*

It measures the company's leverage.

### **PROFITABILITY RATIOS**

	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Return on Equity	2.06%	1.96%
Return on Assets	1.27%	1.47%
Earnings per Share	₱ 0.0549	₱ 0.0496

*Return on Equity (Net Income Attributable to Parent Company's shareholders/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.

#### ACTIVITY RATIO

	June 30, 2021	June 30, 2020
Asset Turnover	3.59%	4.38%

*Asset Turnover (Sales/Total Assets)*

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

#### INTEREST COVERAGE RATIO

	June 30, 2021	June 30, 2020
Interest Coverage	6.34	13.20

*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 2nd quarter ended June 30, 2021, there are no:

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

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE 2<sup>nd</sup> QUARTER ENDED June 30, 2021**

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**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 May 25, 2021, the Philippine Securities and Exchange Commission (SEC) approved the change in the Company's registered office and principal place of business from 16<sup>th</sup> Floor, Alliance Global Tower, 36<sup>th</sup> Street cor. 11<sup>th</sup> Avenue, Uptown Bonifacio, Taguig City to 9/F Eastwood Global Plaza, Palm Tree Avenue, Eastwood City, Bagumbayan, Quezon City. The related approval from the Bureau of Internal Revenue (BIR) was obtained on May 21, 2021.

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 30<sup>th</sup> Floor, Alliance Global Tower, 36<sup>th</sup> Street cor. 11<sup>th</sup> 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 7<sup>th</sup> 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		
		2Q2021	2020	2019
<b>Subsidiaries:</b>				
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 Compañía 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%	100%
Savoy Hotel Boracay, Inc.	(e)	100%	100%	-
Belmont Hotel Boracay, Inc.	(e)	100%	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%	51%
Oceanfront Properties, Inc. (OPI)		50%	50%	50%
Global Homes and Communities, Inc. (GHCI)		100%	100%	100%
Southwoods Mall, Inc. (SMI)		51%	51%	51%
<b>Associates:</b>				
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%

Non-controlling interests (NCI) in 2Q2021, 2020 and 2019 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 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.

## 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), which include the availment of the financial reporting reliefs issued and approved by the SEC as discussed in Note 2.2(c). 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 (BOA).

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.

The Group reclassified its Due to joint venture partners from Non-Current Liabilities to Current Liabilities to reflect its proper classification. The reclassification did not have any significant impact on the consolidated statements of comprehensive income and consolidated statements of cash flows.

Moreover in 2020, the Company changed its classification of Day-one losses, previously presented as part of Finance Costs and Other Charges account, as a reduction against the Real Estate Sales account. Day-one losses arise from the remeasurement of noninterest-bearing real estate sales. Marketing fees previously classified as part of Finance and Other Income account was also reclassified as a separate line item under the Revenues and Income section. The reclassifications were made to conform to the current year presentation and classification of accounts.

The reclassification did not have any significant impact on the consolidated statements of cash flows for the years ended December 31, 2020, 2019 and 2018.

(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 2020 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, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 3 (Amendments)	:	Business Combinations – Definition of a Business
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

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

- (i) *Revised Conceptual Framework for Financial Reporting.* 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. The application of the revised conceptual framework had no significant impact on the Group's consolidated financial statements.

- (ii) 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. The application of these amendments had no impact on the Group's consolidated financial statements.
- (iii) PFRS 3 (Amendments), *Business Combinations – Definition of a Business*. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. Also, the amendments will likely result in more acquisitions being accounted for as asset acquisitions. The application of these amendments had no impact on the Group's consolidated financial statements.
- (iv) PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform*. The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Group's consolidated financial statements.

(a) *Effective Subsequent to 2020 but not Adopted Early*

There are pronouncements effective for annual periods subsequent to 2020, 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) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The Group did not opt to early adopt the amendments as there are no material rent concessions as a direct consequence of COVID-19 pandemic wherein the Group is the lessee.
- (ii) PFRS 3 (Amendments), *Business Combination – Reference to the Conceptual Framework* (effective from January 1, 2022). The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard.
- (iii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- (iv) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- (v) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Group:
  - PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
  - Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes potential for confusion regarding lease incentives.
- (vi) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies

determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

- (vii) 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 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.

(b) *SEC Financial Reporting Reliefs Availed by the Group*

The Group has availed of several financial reporting reliefs granted by the SEC under Memorandum Circular (MC) No. 14-2018, *Philippine Interpretation Committee Question and Answer (PIC Q&A) No. 2018-12 Implementation Issues Affecting Real Estate Industry*, MC No. 3-2019, *PIC Q&A Nos. 2018-12-H and 2018-14*, and MC No. 4-2020, *Deferment of the Implementation of IFRS Interpretations Committee (IFRIC) Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Costs) for Real Estate Industry*, relating to several implementation issues of PFRS 15, *Revenue from Contracts with Customers*, affecting the real estate industry. These MCs deferred the implementation of the relevant accounting pronouncements until December 31, 2020.

In December 2020, the SEC issued MC 34-2020, *Deferral of PIC Q&A No. 2018-12 and IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23) for Real Estate Industry*, providing another relief by further deferring until December 2023 the implementation of certain issues under MC No. 14-2018 and MC No. 4-2020. The additional relief is effective January 1, 2021.

Discussed in the succeeding pages are the financial reporting reliefs availed of by the Group, including the descriptions of the implementation issues and their qualitative impacts to the consolidated financial statements. The Group opted to avail the reliefs until the end of the deferral period as provided under the relevant MC.

<b>Relief</b>	<b>Description and Implication</b>	<b>Deferral period</b>
IFRIC Decision on Over Time Transfer of Constructed Goods (PAS 23) for	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	Originally until December 31, 2020 under MC No. 4-2020; further deferred until December 31, 2023 under MC No. 34-2020



<p>Real Estate Industry</p>	<p>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.</p> <p>Had the Group elected not to defer the IFRIC Agenda Decision, it would have the following impact in the consolidated financial statements:</p> <ul style="list-style-type: none"> <li>(i) finance costs and other charges would have been higher;</li> <li>(ii) cost of real estate inventories would have been lower;</li> <li>(iii) total comprehensive income would have been lower;</li> <li>(iv) retained earnings would have been lower; and,</li> <li>(v) the carrying amount of inventories would have been lower.</li> </ul>	
<p><b>Relief</b></p>	<p><b>Description and Implication</b></p>	<p><b>Deferral period</b></p>
<p>PIC Q&amp;A No. 2018-12-D, <i>Concept of the significant financing component in the contract to sell</i></p>	<p>PFRS 15 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.</p> <p>Had the Group elected not to defer this provision of the standard, it would have an impact in the consolidated financial statements as there would have been a significant financing component when there is a difference between the percentage of completion (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</p>	<p>Originally until December 31, 2020 under MC No. 4-2020; further deferred until December 31, 2023 under MC No. 34-2020</p>

	<p>consideration and interest expense when lesser. Both interest income and expense would be calculated using the effective interest rate method. These would have affected the retained earnings, real estate sales, and profit or loss in 2020 and 2019.</p>	
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The SEC MCs also provided the required disclosures in the notes to the financial statements should an entity decide to avail of any relief, which include the following:

- the accounting policies applied;
- a discussion of the deferral of the subject implementation issues in the PIC Q&A;
- a qualitative discussion of the impact on the financial statements had the concerned application guidelines in the PIC Q&A been adopted; and,
- the corresponding required quantitative disclosures should any of the deferral options result into a change in accounting policy.

As prescribed by SEC MC No. 34-2020, for financial reporting periods beginning on or after January 1, 2021, the availment of the above deferrals will impact the Group's financial reporting during the period of deferral as follows:

- The financial statements are not considered to be in accordance with PFRS and should specify in the "Basis of Preparation of the Financial Statements" section of the consolidated financial statements that the accounting framework is PFRS, as modified by the application of the financial reporting reliefs issued and approved by the SEC in response to the COVID-19 pandemic; and,
- The auditor's report shall reflect in the opinion paragraph that the financial statements are prepared in accordance with PFRS, as modified by the application of the financial reporting reliefs issued and approved by the SEC. In addition, the external auditor shall include an Emphasis of Matter paragraph in the auditor's report to draw attention to the basis of accounting that has been used in the preparation of the consolidated financial statements.

*(c) PIC Q&As Relevant to the Real Estate Industry*

In 2020, the PIC has issued four PIC Q&As which are relevant to the real estate industry.

- PIC Q&A No. 2020-02, *Conclusion on PIC Q&A No. 2018-12-E: On the Treatment of Materials Delivered on Site but not yet Installed in Measuring the Progress of the Performance Obligation*

In recognizing revenue using a cost-based input method, the cost incurred for customized materials not yet installed are to be included in the measurement of progress to properly capture the efforts expended by the Group in completing its performance obligation. In the case of uninstalled materials that are not customized, since the Group is not involved in their design and manufacture,

revenue should only be recognized upon installation or use in construction. The adoption of this PIC Q&A will be consistent with PIC Q&A 2018-12-E.

- PIC Q&A No. 2020-03, *Conclusion on PIC Q&A No. 2018-12-D: On the Accounting Treatment for the Difference when the POC is Ahead of the Buyer's Payment*

The difference when the POC is ahead of the buyer's payment can be accounted for either as a contract asset or receivable. The PIC has concluded that both views are acceptable as long as this is consistently applied in transactions of the same nature. The Group intends to continue its current treatment of accounting for the difference when the POC is ahead of the buyer's payment as a contract asset.

- PIC Q&A No. 2020-04, *Addendum to PIC Q&A 2018-12-D: Significant Financing Component Arising from Mismatch between the Percentage of Completion and Schedule of Payments*

There is no significant financing component if the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. Further, the Group do not need to adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception that the timing difference of the receipt of full payment of the contract price and that of the completion of the project, are expected within one year and significant financing component is not expected to be significant. The adoption of this PIC Q&A will be consistent with PIC Q&A 2018-12-D as discussed in Note 2.2(c).

- PIC Q&A No. 2020-05, *Accounting for Cancellation of Real Estate Sales (PIC Q&A No. 2020-05 will supersede PIC Q&A No. 2018-14)*

There are three acceptable approaches in accounting for sales cancellation and repossession of the property as follows:

- reposessed property is recognized at fair value less cost to repossess;
- reposessed property is recognized at fair value plus repossession cost; or,
- cancellation is accounted for as a modification of the contract.

The Group accounts for cancellation of sales contract as modification of contract, hence, the adoption of this PIC Q&A will not have significant impact on the Group's consolidated financial statements.

### **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 2.10).

*(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 2.17).

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.

## **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 solely payments of principal and interest 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.

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 or 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 2.20). 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 will 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 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.

## **2.10 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. No restatements are made to the financial information in the consolidated financial statements for periods prior to the business combination as allowed under PIC Q&A No. 2012-01, PFRS 3.2, *Application of the Pooling of Interest Method for Business Combination of Entities under Common Control in Consolidated Financial Statements* (Amended by PIC Q&As No 2015-01 and 2018-13); hence, the profit and loss of the acquiree is included in the consolidated financial statements for the full year, irrespective of when the combination took place. Also, no goodwill is recognized as a result of the business combination and any excess between the net assets of the acquiree and the consideration paid is accounted for as "equity reserves", which will eventually be closed to additional paid-in capital. Also, any pre-acquisition income and expenses of a subsidiary are no longer included in the consolidated financial statements.

## **2.11 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.

## **2.12 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 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.

### **2.13 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.

### **2.14 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 2.15).

To determine whether to recognize revenue from revenue covered by PFRS 15, the Group 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 Group 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 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. 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:

- 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.
- 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.

- 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.
- 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.

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 2.20).

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(b)].

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.

## **2.15 Leases**

The Group accounts for its leases as follows:

- (a) *Group as Lessee*

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 2.17).

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.

*(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.

## **2.16 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.

## **2.17 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.

## **2.18 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.

### **2.19 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).

### **2.20 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.

### **2.21 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.

## **2.22 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.

### **2.23 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.

### **2.24 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.

### **2.25 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*

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 rights 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).

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.

(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.

*(b) 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.

### **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 avilment 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).

*(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 was granted. The estimates and assumptions used are 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 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.

Based on management's assessment as at June 30, 2021 and December 31, 2020, 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.

*(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 June 30, 2021 and December 31, 2020 will be fully utilized within the prescribed period of avilment.

*(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. Also, in 2018, certain investments in associates were found to be impaired, hence, the related carrying amounts were written off. No impairment losses were recognized on investment property, property and equipment, right-of-use assets and other non-financial assets for the period ended June 30, 2021, and years 2020 and 2019.

*(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.

(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 revenue and segment results for business segments or geographical segments, whichever is the enterprise's primary basis of segment reporting.

The following table present revenue and income information for the 2nd quarter ended June 30, 2021 and June 30, 2020.

**June 30, 2021**

*(Amount in thousands)*

	Sales of Real Estate	Hotel Operations	Rentals and Services	Total
Revenue	₱1,819,882	₱44,744	₱261,115	₱2,125,741
Cost	808,989	47,898	160,889	1,017,776
<b>Gross profit</b>	<b>₱1,010,893</b>	<b>(₱3,154)</b>	<b>₱100,226</b>	<b>₱1,107,965</b>

**June 30, 2020**

*(Amount in thousands)*

	Sales of Real Estate	Hotel Operations	Rentals and Services	Total
Revenue	₱2,172,190	₱161,536	₱415,284	₱2,749,010
Cost	862,857	87,550	150,024	1,100,431
<b>Gross profit</b>	<b>₱1,309,333</b>	<b>₱73,986</b>	<b>₱265,260</b>	<b>₱1,648,579</b>

5. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the period.

There have been no material events that happened subsequent to the interim period that need disclosure herein.

6. Effect of changes in the composition of the enterprise during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operation.

Not applicable.

7. Changes in contingent liabilities or contingent assets since the last annual balance sheet date

The Company is a party to certain lawsuits or claims arising from the ordinary course of business and from several of its joint venture agreements. The Group's management and legal counsels 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.

8. Existence of material contingencies and any other events or transactions that are material to an understanding of current interim period.  
There have been no material contingencies and any other events or transactions that are material to an understanding of current interim period.
10. Any events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.  
There have been no events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.
11. All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.  
There have been no material off-balance sheet transactions and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
12. Dividends paid separately for ordinary shares and other shares  
Not applicable.
13. Seasonality or cyclicity of interim operations  
Not applicable
14. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size and incidence.  
Not applicable
15. Issuances, repurchases, and repayments of debt and equity securities  
There have been no issuance, repurchase and repayment of debt and equity securities for the period.

## **RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's financial instruments comprise of cash, short-term bank deposits and investments.

Exposures to credit and liquidity risk arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

1. To identify and monitor such risks on an ongoing basis;
2. To minimize and mitigate such risks; and
3. To provide a degree of certainty about costs.

### **Credit Risk**

The investment of the Group's cash resources is managed so as to minimize risk while seeking to enhance yield. The Group's holding of cash and marketable securities expose the Group to credit risk of the counterparty if the counterparty is unwilling or unable to fulfill its obligations, and the Group consequently suffers financial loss. Credit risk management involves entering into financial instruments only with counterparties with acceptable credit standing. The treasury policy sets aggregate credit limits of any one counterparty and annually reviews the exposure limits and credit ratings of the counterparties. The Group has credit management policies in place to ensure that rental contracts are entered into with customers who have sufficient financial capacity and good credit history.

Sales to buyers of real estate which are collectible on installment are relatively risk-free. Sales to real estate buyers are documented under Contract to Sell agreements which allow cancellation of the sale and forfeiture of payments made in the event of default by buyers. Transfer of title is made to buyers only upon full payment of the account.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

### **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.

### **Interest Rate Risk**

The Group has no significant exposure to interest rate risk as some financial assets and liabilities are fixed-interest bearing.

### **Foreign Exchange Risk**

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. The currency exchange rates arise from Group's United States (U.S.) dollar-denominated cash and cash equivalents.

Management assessed that the foreign currency risks related to these U.S. dollar-denominated cash and cash equivalents to be not material.

## **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 financial 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 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:

*(Figures in thousands)*

	<u>June 2021</u>	<u>December 2020</u>
Total Liabilities	<b>P 15,558,197</b>	<b>P 16,009,987</b>
Total Equity	<u>35,194,521</u>	<u>34,551,240</u>
Debt-to-equity ratio	<u><u>0.44:1</u></u>	<u><u>0.46:1</u></u>

### **CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In determining the fair value of its financial assets and liabilities, the Company takes into account its current circumstances and the costs that would be incurred to exchange or settle the underlying financial assets and liabilities.

The carrying amounts and fair value of the categories of financial assets and liabilities presented in the consolidated financial statement of financial position are shown on the next page:

*Figures in thousands*

	<u>June 30, 2021</u>		<u>December 31, 2020</u>	
	<u>Carrying</u> <u>Values</u>	<u>Fair</u> <u>Values</u>	<u>Carrying</u> <u>Values</u>	<u>Fair</u> <u>Values</u>
<b><i>Financial assets</i></b>				
Loans and receivables:				
Cash and cash equivalents	<b>P 1,664,839</b>	<b>P 1,664,839</b>	P 2,239,105	P 2,239,105
Trade and other receivables - net	<b>8,224,737</b>	<b>8,224,737</b>	8,293,630	8,598,630
Advances to real property owner	<b>1,291,399</b>	<b>1,291,399</b>	1,283,568	1,283,568
Advances to related parties	<b>709,472</b>	<b>709,472</b>	717,625	717,625
Refundable deposits	<u>148,612</u>	<u>148,612</u>	<u>129,920</u>	<u>129,920</u>
	<u><b>P 12,039,059</b></u>	<u><b>P 12,039,059</b></u>	<u>P 12,663,848</u>	<u>P 12,968,848</u>

	<u>June 30, 2021</u>		<u>December 31, 2020</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Values</u>	<u>Values</u>	<u>Values</u>	<u>Values</u>
<b><i>Financial liabilities</i></b>				
Financial liabilities at amortized cost:				
Interest bearing loans and borrowings	P 4,974,265	P 4,974,265	P 5,334,559	P 5,494,601
Trade and other payables	3,335,023	3,335,023	3,293,881	3,293,881
Advances from related parties	883,947	883,947	916,544	916,544
Due to joint venture partners	315,114	315,114	410,467	410,467
Retention Payable	757,950	757,950	860,978	860,978
Redeemable preferred shares	503,194	503,194	503,194	485,835
Accrued dividends on preferred shares	5,693	5,693	937	937
Lease liabilities	<u>472,665</u>	<u>472,665</u>	<u>473,635</u>	<u>473,635</u>
	<u>P 11,247,851</u>	<u>P 11,247,851</u>	<u>P 11,794,195</u>	<u>P 11,936,878</u>

See notes to financial statements 2.4 and 2.9 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in page 46. The Group does not actively engage in the trading of financial assets for speculative purposes.

## GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2021

(Amount in Thousands)

Annex A-1

	Unaudited As of June 30, 2021	Audited As of December 31, 2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash equivalents	1,664,839	2,239,105
Trade and other receivables - net	7,733,703	7,078,289
Contract assets	2,603,174	1,936,273
Advances to real property owners	221,955	217,434
Advances to related parties	709,472	717,625
Inventories, net	18,256,204	18,221,006
Prepayments and other current assets	3,321,740	3,268,872
Total Current Assets	<u>34,511,087</u>	<u>33,678,604</u>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables - net	1,456,049	2,143,694
Contract assets	901,299	857,723
Advances to real estate property owners	1,069,444	1,066,134
Investment in associates, net	732,027	732,027
Investment Properties - net	10,796,802	10,824,754
Property and equipment - net	934,294	940,361
Right-of-use asset	126,677	128,233
Other non-current assets	225,039	189,697
Total Non-current Assets	<u>16,241,631</u>	<u>16,882,623</u>
<b>TOTAL ASSETS</b>	<b><u>50,752,718</u></b>	<b><u>50,561,227</u></b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Interest bearing loans and borrowings	1,220,588	1,470,588
Trade and other payables	3,349,778	3,338,760
Contract liabilities	625,128	472,550
Due to joint venture partners	315,114	410,467
Customer's deposit	1,043,038	1,114,701
Advances from related parties	883,947	916,544
Redeemable preferred shares	251,597	251,597
Lease Liabilities	46,665	46,817
Total Current Liabilities	<u>7,735,855</u>	<u>8,022,024</u>
<b>NON-CURRENT LIABILITIES</b>		
Interest bearing loans and borrowings	3,753,677	3,863,971
Contract liabilities	104,865	327,010
Customer's deposit	204,154	182,765
Redeemable preferred shares	251,597	251,597
Deferred tax liabilities-net	2,135,110	2,078,889
Retirement benefit obligation	125,522	125,775
Lease Liabilities	426,000	426,819
Other non-current liabilities	821,417	731,137
Total Non-current Liabilities	<u>7,822,342</u>	<u>7,987,963</u>
Total Liabilities	<u>15,558,197</u>	<u>16,009,987</u>
<b>EQUITY</b>		
Equity attributable to parent company's shareholder	29,251,757	28,648,112
Non-controlling interest	5,942,764	5,903,128
Total Equity	<u>35,194,521</u>	<u>34,551,240</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>50,752,718</u></b>	<b><u>50,561,227</u></b>

GLOBAL-ESTATE RESORT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 2Q2021 VS. 2Q2020

(Amount in Thousands)

Annex A-2

	Unaudited 2Q 2021		Unaudited 2Q 2020	
	April-June	January-June	April-June	January-June
<b>REVENUES</b>				
Real estate sales	911,281	1,819,882	1,128,338	2,172,190
Rental income	70,518	190,489	160,875	347,084
Hotel operations	22,705	44,744	12,389	161,536
Service income	27,629	70,626	28,434	68,200
Marketing fees	58,838	80,668	31,294	42,299
Finance and other income	138,199	224,170	25,224	122,771
	<u>1,229,170</u>	<u>2,430,579</u>	<u>1,386,554</u>	<u>2,914,080</u>
<b>COST AND EXPENSES</b>				
Real estate sales	418,697	808,989	435,160	862,857
Cost of rentals and services	89,636	160,889	71,731	150,024
Cost of hotel operations	15,987	47,898	23,159	87,550
Operating expenses	248,343	510,214	265,750	617,830
Finance costs and other charges	46,457	73,226	54,913	156,291
Income tax expense	89,393	186,082	172,438	311,176
	<u>908,513</u>	<u>1,787,298</u>	<u>1,023,151</u>	<u>2,185,728</u>
<b>Net Profit (Loss)</b>	<b>320,657</b>	<b>643,281</b>	<b>363,403</b>	<b>728,352</b>
<b>Other Comprehensive Income (Loss)</b>				
Revaluation reserve		-	-	-
<b>Total Comprehensive Income (Loss)</b>	<b>320,657</b>	<b>643,281</b>	<b>363,403</b>	<b>728,352</b>
<b>Net profit (loss) attributable to:</b>				
Parent Company's shareholder	303,651	603,644	296,835	544,797
Non-controlling interest	17,006	39,637	66,568	183,555
	<u>320,657</u>	<u>643,281</u>	<u>363,403</u>	<u>728,352</u>
<b>Total Comprehensive Income(loss) attributable to:</b>				
Parent Company's shareholders	303,651	603,644	296,835	544,797
Non-controlling interest	17,006	39,637	66,568	183,555
	<u>320,657</u>	<u>643,281</u>	<u>363,403</u>	<u>728,352</u>
<b>Earnings per share</b>	<u>0.0276</u>	<u>0.0549</u>	<u>0.0270</u>	<u>0.0496</u>

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*(Amount in Thousands)*

Annex A -3

	As of June 30, 2021	As of June 30, 2020
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY</b>		
<b>CAPITAL STOCK</b>	10,986,000	10,986,000
<b>ADDITIONAL PAID IN CAPITAL</b>	4,747,739	4,747,739
<b>REVALUATION RESERVE</b>	7,629	5,267
<b>RETAINED EARNINGS</b>	13,510,389	12,364,705
	<b>29,251,757</b>	<b>28,103,711</b>
<b>MINORITY INTEREST</b>	5,942,764	5,873,239
	<b>5,942,764</b>	<b>5,873,239</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>35,194,521</b>	<b>33,976,950</b>

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
*(Amounts in Thousands)*

Annex A-4

	As of June 30, 2021	As of June 30, 2020
Net Income before tax	829,363	1,039,528
Add(less)		
Finance cost	23,995	86,220
Depreciation and amortization	139,838	190,377
Finance income	(33,050)	(57,009)
<b>Operating Income(loss) before working capital changes</b>	960,146	1,259,116
Net Changes in Operating Assets and Liabilities		
Decrease(Increase) current and non current asset	(566,600)	(764,194)
(Decrease)Increase current and non current liabilities	(318,221)	(435,947)
Cash paid for income taxes	(38,089)	(138,248)
Interest paid	(128,291)	(149,614)
<b>Cash from(used in) Operating Activities</b>	(91,055)	(228,887)
<b>Cash from(used in) Investing Activities</b>	(97,502)	14,076
<b>Cash from (used in) Financing Activities</b>	(385,709)	(467,194)
<b>Net Increase (decrease) in cash and cash equivalent</b>	(574,266)	(682,005)
<b>Cash and cash equivalent at the beginning of the year</b>	2,239,105	2,621,473
<b>Cash and cash equivalent at the end of the year</b>	1,664,839	1,939,468

**GLOBAL-ESTATE RESORTS, INC, AND SUBSIDIARIES**  
**AGING OF ACCOUNTS RECEIVABLE**

As of June 30, 2021

*(Amounts in Thousands)*

Annex A-5

Aging of Accounts Receivable

Type of receivables:	TOTAL	CURRENT/NOT YET DUE	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year
a. Trade/Other Receivable	9,189,752	8,286,685	503,567	169,398	120,180	109,922
Net Receivable	9,189,752					