# COVER SHEET

SEC Registration Number

2 6 9 8 6

**Company Name**

D . M .  W E N C E S L A O  &  A S S O C I A T E S ,

I N C O R P O R A T E D

**Principal Office (No./Street/Barangay/City/Town/Province)**

3 / F  A S E A N A P O W E R S T A T I O N  B L D G .  D

. M A C A P A G A L  B L V D .  C O R .  B R A D C O  A

V E . ,  A S E A N A  C I T Y ,  P A R A N A Q U E  C I

T Y

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 1 7 - A | | |

COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| www.dmwai.com | 854 - 5711 | |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| 11 | | December 31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| ATTY. HEHERSON M. ASIDDAO | | 854 - 5711 | |

Contact Person's Address

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

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

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

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

1. For the fiscal year ended **December 31, 2018**

2. SEC Identification Number **26986**

3. BIR Tax Identification No **000-846-618-000**

4. Exact name of issuer as specified in its charter **D.M. Wenceslao & Associates, Incorporated**

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

6. Industry Classification Code: ____________ (SEC Use Only)

7. Address of issuer's principal office and postal Code
   **3/F Aseana Powerstation Building Aseana Business Park**
   **D. Macapagal Blvd. Cor. Bradco Ave., Aseana City, Parañaque City**

8. Issuer's telephone number, including area code: **(632) 854-5711**

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

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

**As of December 31, 2018**

| Title of each class | Number of shares issued and outstanding and amount of debt outstanding |
|---|---|
| Capital Stock, P1 par value | 3,395,864,100 |

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

    Yes [ x ] No [ ]

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

    Stock Exchange: **Philippine Stock Exchange**
    Securities listed: **Common shares**

12. Check whether the issuer:

    (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 [ x ] No [ ]

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

    Yes [ x ] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: P26.5 billion as of end 2018

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

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

    Yes [X] No [ ]

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

2018 Audited Consolidated Financial Statements (incorporated as reference for Items 1, 6, 7 & 12 of SEC Form 17-A)

## TABLE OF CONTENTS


| | Page No |
|---|---|
| **PART I – BUSINESS AND GENERAL INFORMATION** | |
| Item 1. Business | 1 |
| Item 2. Properties | 12 |
| Item 3. Legal Proceedings | 14 |
| Item 4. Submission of Matters to a Vote of Security Holders | 14 |
| **PART II – OPERATIONAL AND FINANCIAL INFORMATION** | |
| Item 5. Market for Issuer's Common Equity and Related Stockholder Matters | 15 |
| Item 6. Management's Discussion and Analysis or Plan of Operation | 16 |
| Item 7. Financial Statements | 36 |
| Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 36 |
| **PART III - CONTROL AND COMPENSATION INFORMATION** | |
| Item 9. Directors and Executive Officers of the Issuer | 37 |
| Item 10. Executive Compensation | 41 |
| Item 11. Security Ownership of Certain Beneficial Owners and Management | 42 |
| Item 12. Certain Relationships and Related Transactions | 43 |
| **PART IV – CORPORATE GOVERNANCE** | |
| Item 13. Corporate Governance | 45 |
| **PART V - EXHIBITS AND SCHEDULES** | |
| Item 14. Exhibits and Reports on SEC Form 17-C | 46 |
| **INDEX TO EXHIBITS** | **47** |
| **SIGNATURES** | **48** |

# PART I – BUSINESS AND GENERAL INFORMATION

## Item 1. Business

### Business Development and Principal Products or Services

D.M. Wenceslao & Associates, Incorporated (DMWAI or the Parent Company) was incorporated in the Philippines on April 7, 1965. DMWAI is presently engaged in the trade and business of general builders and contractors and related activities such as acting as specialty construction contractors, supervisors or managers in all cases of constructions, erections and works both public and private, real estate business and leasing. On December 4, 2012, the Philippine Securities and Exchange Commission (SEC) approved the Parent Company's application for the extension of its corporate life. The shares of stock of the Company are officially listed in the PSE on June 29, 2018. The Company listed 679,172,800 Common Shares generating proceeds (the Offering Proceeds) of P8,150.1 million.

DMWAI holds certain investments in entities that are either subsidiaries, associates or joint venture (collectively referred to herein as the "Group"). DMWAI is a subsidiary of Wendel Holdings Co., Inc. (WHI or Ultimate Parent Company), a company incorporated and domiciled in the Philippines. WHI is presently engaged in raising investments either through borrowings, sale or lease of its capital assets. The effective percentage of ownership of WHI in DMWAI aggregates to 62.92% and 78.65% as of December 31, 2018 and 2017, respectively.

DMWAI is an integrated property developer with an established track record and market-leading capabilities in land reclamation, construction and real estate development. The Group is the master developer of Aseana City, a development project with an approximate total land area of 1,074,714.0 sq.m. and is part of the larger 2,040,000.0 sq.m. CBP-BC project, which we reclaimed. Aseana City is positioned to become the next major mixed-use or "Next Generation" CBD in Metro Manila, anchored by tourism, recreational developments and retail malls. These sectors have and continue to attract large investments into the Philippines, and we expect revenues from these sectors to increase correspondingly. Our master plan for Aseana City is designed to create a self-contained community and to specifically attract the middle-class working families and middle-income executives who work in these sectors.

Aseana City is situated close to two of the most significant recreational and entertainment districts in Metro Manila – PAGCOR's Entertainment City and the SM Group's Mall of Asia development. PAGCOR's Entertainment City is a gaming and entertainment complex featuring high-end integrated casinos and tourism resorts, such as City of Dreams Manila, Solaire Resort & Casino, and Okada Manila, which attract leisure and tourist traffic to the entire area.

The Group possesses, in the aggregate, one of the largest contiguous land holdings in Metro Manila with a total area of 576,276.0 sq.m. located in Aseana City. As of December 31, 2018, the Group has eight (8) existing developed properties with leasable floor area of 89,914 sq.m., seven (7) of which are located in Aseana City. Also, as of December 31, 2018, the Group has already launched two (2) residential projects which are currently undergoing construction.

DMWAI's registered office, which is also its principal place of business, is located at 3rd Floor Aseana Powerstation Building, D. Macapagal Blvd. cor. Bradco Ave. Aseana City, Parañaque City. The registered office of WHI, which is also its principal place of business, is at 306 E. Rodriguez Sr. Boulevard, Quezon City.

The following are the significant subsidiaries and associates of the Parent Company:

| Name of Subsidiaries | Date and Place of Incorporation | Percentage of Ownership |
|---|---|---|
| **A. Real estate Development** | | |
| Aseana Residential Holdings Corp. (ARHC), | July 6, 1999 | 100.00% |
| Aseana Holdings, Inc. (AHI) | March 20, 1996 | 99.98% |
| Aseana City Transport & Travel Corp. (ACTTC) | December 9, 2010 | 99.98% |
| **B. Land Holding** | | |
| Portal Holdings, Inc. (PHI) | May 7, 1999 | 100.00% |
| Bay Area Holdings, Inc. (BAHI) | August 30, 1999 | 59.98% |
| **C. Construction and Land Reclamation** | | |
| Fabricom, Inc. (FI) | February 13, 1986 | 99.98% |
| R-1 Consortium, Inc. (R-1) | May 31, 1996 | 55.45% |
| Mandaue Land Consortium, Inc. (MLCI) | June 7, 2002 | 81.00% |
| **D. Ancillary Services** | | |
| U-City Technologies Philippines, Inc. (UCTPI) | October 4, 2013 | 99.98% |
| Aseana Real Estate Services Management Corp. (ARESM) | July 5, 2011 | 95.98% |
| Aseana Gas Energy Corp. (AGEC) | May 18, 2011 | 99.98% |

The Company has three business segments, namely, rentals, construction and, sale of land and condominium units. The contribution of each of the business segments as of and for the year ended 2018 are as follows:

| | Rentals | Construction | Sale of Land and Condominium Units | Total |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sales to external customers | P 1,901,198,613 | P 130,524,057 | P 120,603,866 | P 2,152,326,536 |
| Intersegment sales | 285,467,868 | 396,965,447 | - | 682,433,315 |
| Total revenues | 2,186,666,481 | 527,489,504 | 120,603,866 | 2,834,759,851 |
| **COSTS AND OTHER OPERATING EXPENSES** | | | | |
| Cost of sales and services excluding depreciation and amortization | 109,175,760 | 47,044,325 | 72,915,796 | 229,135,881 |
| Depreciation and amortization | 103,185,483 | 14,464,456 | - | 117,649,939 |
| Other expenses | 164,619,236 | 4,525,791 | 25,528,152 | 194,673,179 |
| | 376,980,479 | 66,034,572 | 98,443,948 | 541,458,999 |
| **SEGMENT OPERATING PROFIT** | P 1,809,686,002 | P 461,454,932 | P 22,159,918 | P 2,293,300,852 |

Further details relating to business segment data are disclosed in Note 4 of the attached 2018 consolidated financial statements.

As of December 31, 2018, the Company had a market capitalization of P26.5 billion.

For the year 2019, the Company expects to incur at least P4 billion for its capital expenditures.

**Distribution methods of Products or Services**

*Sales, Leasing and Marketing*

Our sales, leasing and marketing department is responsible for determining appropriate sales or lease plans for our land and properties. The main responsibilities of our sales staff, many of whom are licensed brokers, include analyzing market conditions, gathering and analyzing customers' information and profiles, preparing and executing marketing and promotional campaigns, recommending lease rates, unit prices and pricing-related policies for our land and properties, and negotiating the contracts for our sales and leases. They are in regular communications with accredited brokers and reputable third-party sales agents regarding our properties. On a per project basis, we assess the need for an exclusive marketing or leasing agent.

Our sales and leasing team is also responsible for managing our marketing initiatives, mainly through the use of print media and social media. They conduct market analysis to identify the appropriate target customer base and determine the advertising and sales plans for a particular property development and for a particular phase of the sales cycle. We appoint a media marketing agent on a yearly basis who carries out our advertising and promotional campaigns in accordance with a pre-approved annual plan and budget. We have adopted a standardized branding and marketing strategy covering advertisements, slogans and publicity materials in respect of our property developments in Aseana City. This approach enables us to uniformly promote our Aseana City concept of living and effectively builds up our brand image in line with our overall strategy of national growth.

**Competition**

The principal competitive factors affecting the property development industry include the location of the developments, the quality, workmanship and variety of designs, the sales and marketing strategies adopted by the developers, branding and the after-sale property management services.

Our developments are predominantly located in Aseana City, and we believe we compete with other property developers and commercial property operators in close proximity within the Manila Bay area, such as SM Development Corporation, DoubleDragon Properties Corp., Filinvest Land Inc., Megaworld Corp. and Federal Land Incorporated. In addition, the commercial and residential property market in Metro Manila is highly competitive and fragmented. As such, we face competition posted by other property developers and threats of new players entering the property development industry in Metro Manila. Some of our competitors may have greater brand recognition and financial, technical and marketing resources than us.

Our principal method of competition is flexibility in our negotiation of commercial terms with customers. We maintain flexibility on payment terms, the amount of the downpayment required and the payment period to make our land available for sale more attractive to

customers. For our commercial projects, we are open to tenant negotiations on the length of the rent-free period or fit out period as well as rent escalation rates. Despite the high level of competition, we believe that the experience built up by our management, our track record in real estate development, leasing and management, and our understanding of local market preferences and conditions will enable us to compete effectively.

We believe that our land reclamation and infrastructure projects focused construction business is capital intensive in nature and requires significant technical expertise, operational and management know-how and financial resources, which all represent substantial barriers to entry. Furthermore, we have an over 50 years operating history and a proven track record in land reclamation and infrastructure construction, rendering us, we believe, one of the leading players in this sector in the Philippines. We primarily compete in terms of our flexibility on our target profit margin for the project, which affects our overall project pricing, and the amount of downpayment required from the customer.

The Philippine construction industry for the residential and commercial property markets is fragmented and highly competitive, especially in the Metro Manila area, with many construction companies competing aggressively in the same target market. These companies have existing or on-going residential and commercial projects in the Metro Manila area. We face strong competition from major domestic, Asian and international players who may have greater financial, human and other resources, larger sales networks and greater name recognition than us. The Philippines construction industry is expected to be driven by rising infrastructure demand from various industries such as business process outsourcing, offshore gaming operators and tourism and, given the positive economic outlook for the Philippines, we expect greater focus on this sector from existing competitors such as DMCI Holdings, Inc., Megawide Construction Corporation and F.F. Cruz & Co., Inc., and potentially new entrants into the market. We also believe that the less technically complex sub-segments of the construction business, an area that is not our focus, will have lower barriers of entry and therefore will see more competition amongst smaller construction companies.

Notwithstanding the strong competition that we face, our Group believes that our established track record and standing in the industry and an integrated business model that allows us to fully leverage the synergies across our business segments and strategic land holdings in Aseana City will offer us a competitive advantage over our competitors and provide us with a platform for sustained future growth.

**Suppliers**

The Company has a broad range of suppliers, both local and foreign.

## Customers

*Contracts for Land Sales*

Our land sales process is fairly standardized. We typically enter into a contract to sell with the purchaser, pursuant to which a downpayment ranging from 10% to 50% is required at signing, with the balance to be paid on a monthly basis over a specified period. Once full payment is made, we execute a deed of absolute sale in favor of the purchaser and title ownership of the land is only transferred at that stage. Starting 2016, we have successfully negotiated with our land buyers to pay the consideration in full upon the signing of the purchase agreement.

As of December 31, 2018, we had completed the following land sales transactions for the past three years.

| Purchaser | Total Land Area (sq.m.) | Usage of Land | Developmen t Status | Date of Contract to Sell | Economic Interest[3] | % Purchase Price for which Payment Received[5] | Sales (₱ in millions) | Cost of sales (₱ in millions) |
|---|---|---|---|---|---|---|---|---|
| **Bayprime Property Inc.** | 2,180.0 | Mixed Use | Planning | August 2016 | 100% | 100% | 403.30 | 84.81 |
| **Harton Lyncoln Realty Inc.** | 874.0 | Mixed Use | Planning | December 2016 | 100% | 100% | 161.69 | 34.00 |
| **Uni-Asia International Prime Holdings** | 2,521.0 | Mixed Use | Planning | June 2017 | 100% | 100% | 605.04 | 80.10 |
| **MMA Land, Inc.** | 1,706.0 | Mixed Use | Planning | July 2017 | 100% | 100% | 400.91 | 143.22 |
| **Jeco Development Corp.** | 1,933.0 | Mixed Use | Planning | September 2017 | 100% | 100% | 483.25 | 61.42 |

*Land Lease Agreements*

For our land leases, we generally enter into mid to long-term leases ranging from 10 to 20 years, taking into account the estimated construction periods for the developments to be built on the relevant land plots. In September 2014, however, we signed a 45-year lease with Ayala Land for a parcel of land with an area of 92,317.0 sq.m. to be used as the site for the Ayala Malls Manila Bay, its highly anticipated mixed-use mall and hotel development. The typical terms of our land leases include provision for specified yearly escalation rates generally ranging from 5% to 10% and, in some cases, provide for additional or variable rent based upon the tenant's revenues.

The table below sets forth certain basic information on our top six land lessees, in terms of revenue contribution, as of December 31, 2018.

| Lessee | Term | Usage of Land | Total Land Area (sq.m.) | Economic Interest[1] | Commencement of Revenue Recognition | % of Total Land Rental Revenues for the year ended December 31, 2017 |
|---|---|---|---|---|---|---|
| **Ayala Land, Inc.** | 45 years (option to extend for 45 years) | Mixed-use mall and hotel development | 92,317.0 | 100% | September 2014 | 77.95% |
| **Ayala Land, Inc.** | co-terminus with above | Mixed-use mall and hotel development | 9,980.48 | 100% | January 2017 | See consolidated percentage above |
| **Prestige Bay Realty Development Corp.** | 15 years | Mixed-use | 4,897.0 | 60% | March 2018 | 4.80% |
| **Singapore School Manila Inc.** | 10 years (option to extend for 10 years) | School | 4,787.0 | 100% | March 2014 | 2.85% |
| **Globeway Property Ventures, Inc.** | 10 years (option to extend for 10 years) | Retail / Restaurant | 4,897.0 | 100% | September 2015 | 2.11% |
| **Seven Tall Trees Events, Inc.** | 10 years (option to extend for 5 years) | Events venue | 5,857.0 | 100% | March 2013 | 1.8% |

In 2018, rental revenues from a single lessee account for 34.96% of the consolidated revenues. In 2017, rental revenues from a single lessee and sale of land from two customers account for 25.21% and 36.11% of the consolidated revenues, respectively, while in 2016, 60.42% of consolidated revenues pertained to rental revenues, construction revenues and sale of land from three major customers. There are no other major existing sales contract.

*Leased Properties*

Our lease agreements are generally for a term of five to 10 years with an option to extend upon giving six months' notice prior to expiry, depending on the business of the relevant tenant. The tenant is required to pay us (i) an advance prepayment of the first three months' rent upon signing of the lease, and (ii) a security deposit amounting to three months' rent, subject to top-up increases by the tenant based on the escalated monthly rent rates for subsequent years. We generally offer a rent-free period of one month for every full floor of 1,000 sq.m. to 1,500 sq.m. leased. Our lease rates are based on our market studies of the property landscape and rental prices in Aseana City and surrounding areas, and we specify a standard annual fixed rental escalation rate typically ranging from 3% to 10%, which we believe is in line with industry standards. For retail space leases, other than a fixed monthly rental rate, we may ask for additional variable percentage payments such as an additional monthly payment amounting to a certain percentage of the tenant's monthly gross product sales, or choose to be paid the higher of either the fixed monthly rental or the variable percentage payment.

Below sets forth certain basic information on our top five commercial space leases, in terms of revenue contribution, as of December 31, 2018.

| Tenant and Building | Term | Business | Total Leased Floor Area (sq.m.) | Commencement of Revenue Recognition | % of Our Total Building Rental Revenues for the year ended December 31, 2017 |
|---|---|---|---|---|---|
| **Flying Dragon Network Phils. Inc.** (Aseana Three) | 5 years | POGO | 19,827.3 | December 2017 | 25.46% |
| **Starfuzion Management Corporation** (Aseana Town Center) | 10 years (option to extend for 5 years) | Retail | 7,646.1 | December 2016 | 8.17% |
| **V Ships Services Oceana, Inc.** (Aseana Two) | 10 years (option to extend) | Logistics | 7,694.5 | December 2014 | 7.8% |
| **Philippine Eds Techno-Service, Inc.** (Aseana One) | 10 years (option to extend for 5 years for two successive terms) | BPO | 5,693.0 | October 2012 | 5.3% |
| **Teletech Customer Care Management Philippines** (Aseana One) | 5 years (option to extend for 5 years) | BPO | 2,504.7 | December 2013 | 4.8% |

## Transactions with related parties

As of December 31, 2018, the Company is 62.9% and 80.0% owned by WHI and Wenceslao family, respectively.

Please refer to Item 12 of this report ("Certain Relationships and Related Transactions")

## Government approvals/regulations

The Company secures various government approvals such as the environmental compliance certificate, development permits, license to sell, etc. as part of the normal course of its business.

## OUR EMPLOYEES

As of December 31, 2018, we employed a total approximately of 154 permanent staff, of which 53% are construction and operation staff. Permanent staff also includes executive and management staff, finance and accounting staff, and administrative staff. We also hire temporary staff, including staff on short-term contracts and staff paid on a part-time or hourly rated basis, particularly at the construction sites.

The following table sets forth our employees by function as of December 31, 2018.

| Function | Number of Employees |
|---|---|
| Executives and Management | 18 |
| Construction and Operation | 75 |
| Finance and Accounting | 19 |
| Administration | 42 |
| **Total** | **154** |

As of December 31, 2018, none of our employees belonged to any union nor were they parties to any collective bargaining agreements. As of the date of this report, we have not experienced any

strikes or other disruptions due to labor disputes. We have consistently benefited from low staff turnover rates and strong management-employee relations.

*Staff recruitment and training*

We recognize the importance of having a strong team of management and technical personnel to meet our growth plans. Accordingly, we place great emphasis on staff recruitment, training and development. Our hiring process involves a series of tests whereby applicants are screened on the following criteria: (i) educational qualifications; (ii) skills and talents; (iii) relevant work experience; and (iv) potential qualities.

Our introductory orientation program offers all new employees basic training on company policies, rules and regulations, quality management and safety guidelines. In particular, our Human Resources Department prepares the Employees Skills Inventory Manual, which is used to monitor the performance of employees and summarizes their expected competencies. The Employees Skills Inventory Manual and Performance Appraisal comprise the basis for the Annual Training Plan, which maps out our overall training guidelines. Select employees undergo further training in their respective disciplines based on their scope of work. Refresher courses, including updates, are provided to employees on a regular basis thereafter.

We are committed to providing high quality service and instill this ethic in our employees through comprehensive quality management training. The basis for our quality management standards are set out in our Quality System Manual ("QSM") and the various manuals comprising the Quality System Documentation Structure ("QSDS"). These manuals serve as a reference for assessment of current practices and proposed improvement, and therefore assist us to maintain unified documented practices across all departments. The QSM covers the following areas in quality control: (i) control of documents; (ii) control of records; (iii) control of nonconforming products or services; (iv) internal quality audit; (v) corrective action; and (vi) preventive action. All employees have access to the QSM and QSDS and are required to attend training sessions on quality management and follow-up briefings. We also conduct periodic quality reviews to monitor and assess the implementation of our quality standards.

**Risks**

***Our business is largely affected by the general level of activity and growth in Aseana City.***

We mainly operate in Aseana City and as a result, the continuous growth and development of Aseana City and the surrounding areas are paramount to our business and future prospects. The development of Aseana City is implemented in accordance with a master plan that is estimated to require upward of 15 years to complete. We have significant influence over the master planning of the area, and thus the continuing development of Aseana City, but we cannot assure you that the master plan will be effectively carried out as contemplated, or that the vision of Aseana City as the next major mixed use central business district within Metro Manila will eventually be realized. Completion of the ongoing public transport infrastructure projects expected to benefit the development of Aseana City may be substantially delayed, or future planned infrastructure projects may be postponed indefinitely or cancelled. There is no assurance that the drivers expected to facilitate Aseana City's development and also underlie our business strategies may eventually materialize, such as the continuous growth of the BPO sector that is expected to increase the demand for commercial space, the anticipated increase in POGOs and in gaming activities in the adjacent Entertainment City that is expected to generate consumer and

visitor traffic for the entire area, and the success of the tourism and recreational-related developments that is expected to increase the value of, and demand for, residential and commercial space within Aseana City. Many other factors can also affect the development of Aseana City, including the state of the national and regional economies in the Philippines, changes in Government policies leading to changes in market conditions, and political and social developments that may translate into project execution difficulties.

To help manage these risks, we have diversified our earnings base to include rental income from our investment properties, and revenue from sales of condominium units, sales and leasing of land, and construction contracts. In keeping with our general strategies, we started pursuing strategic and opportunistic acquisitions of land and other properties outside Aseana City. Nevertheless, in the event Aseana City does not develop as we plan and envision, there could be a material and adverse effect on our business and prospects.

***Our title to our land holdings may be subject to various lawsuits, challenges and claims.***

Our existing land holdings in Aseana City, which were obtained pursuant to the agreements described below, are entirely located on reclaimed foreshore land, otherwise known as the CBP-BC development. The total book value of such land holdings, including the buildings and improvements constructed on such land, amounted to ₱19,285.0 million as of December 31, 2018, and comprised approximately 51% of our total consolidated assets as of the same date.

Although we hold registered titles to our land holdings, Philippine law provides that issuance of titles does not create or vest title, but only constitutes evidence of ownership over such properties. Thus, our ownership, registration, and possession of titles and actual possession of our land holdings do not foreclose the possibility that the Government or third parties may at any time, file lawsuits to challenge our rights to our land holdings. Notwithstanding the foregoing, we are not aware of the validity of our titles being questioned, impugned, challenged or invalidated by the Government or any other third party since the time we acquired ownership over our land holdings in Aseana City and up to the date of this Prospectus. We are not aware of any proceedings, contentions, claims or disputes questioning our titles which had arisen in over 20 years since such titles were registered in our name. Nevertheless, there may still be a possibility that the Government would file a lawsuit to question our titles and right to our land holdings in the future, because as a general rule, the right of the Government to seek the reversion of a property to the State is imprescriptible.

Despite our registered titles to our land holdings, it remains possible that a party with no direct interest in the land may elect to challenge our titles, as was permitted in the case *Chavez v. Public Estates Authority* ("PEA") and *Amari Coastal Bay Development Corporation* ("Amari") (G.R. No. 133250, July 9, 2002, reconsideration denied on May 6, 2003 and November 11, 2003), or the PEA Amari Decision. In the PEA Amari Decision, PEA entered into a joint venture agreement with Amari to develop three reclaimed islands known as the "Freedom Islands". The petitioner in that case filed a petition before the Supreme Court to question the sale of portions of the Freedom Islands to Amari alleging that such sale violated Section 3, Article XII of the Constitution, which prohibits the Government from alienating lands of public domain to private corporations. The Supreme Court ruled in that case that ownership over reclaimed foreshore lands under an amended joint venture agreement between PEA and Amari could not be transferred from PEA to Amari because: (1) reclaimed lands, being lands of the public domain, cannot be disposed of by the State to any private person until such reclaimed lands are (a) reclassified as disposable or alienable, and (b) declared to be no longer needed for public purpose, by law or presidential proclamation; (2) alienable public lands cannot be disposed of by

the State to private persons by sale or lease without public bidding; and (3) alienable lands of the public domain cannot be disposed of to private corporations, except by lease, in accordance with the constitutional ban on private corporations acquiring lands of the public domain. The Supreme Court further ruled that the amended joint venture agreement between PEA and Amari violated Section 3, Article XII of the Constitution, declared the same as null and void *ab initio* and enjoined PEA and Amari from implementing the said agreement.

However, in the case of *Chavez v. National Housing Authority* ("NHA") and *R-II Builders, Inc.* (the "NHA Decision") (G.R. No. 164527, August 15, 2007), the Supreme Court clarified that in certain cases, the transfer of land, although illegal or unconstitutional, will not be invalidated on considerations of equity and social justice. In the NHA Decision, NHA and R-II Builders Inc. entered into a joint venture agreement for the development of the Smokey Mountain dumpsite and the reclamation of the 40 hectares of the Manila Bay Area situated across Radial Road 10. Similar to the Amari case, the amended joint venture agreement between NHA and R-II Builders, Inc. was questioned based on Section 3, Article XII of the Constitution, among other grounds. However, unlike in the Amari case where the Supreme Court held that the subject reclaimed lands remained to be lands of the public domain which cannot be held by private corporations except by lease, the Supreme Court held in the NHA Decision that, by virtue of the transfer of the subject reclaimed lands to NHA, said lands were automatically classified as lands of the private domain or patrimonial properties of the State which can be sold or transferred to qualified private corporations (i.e., private corporations which are at least 60% owned by Filipinos). In the NHA Decision, the Supreme Court also upheld the validity of the joint venture agreement and emphasized that the concurrent acts of the executive department, including the issuance of several presidential proclamations and special patents therefore (which acts were found to be legal, valid and binding by the court), had vested rights in favor of slum dwellers, the buyers of reclaimed land who were issued titles over said land, and the agencies and investors who made investments in the project. The Supreme Court also held that the ruling in the Amari case cannot be retroactively applied since it may prejudice vested rights.

The Office of the Government Corporate Counsel ("OGCC"), through Opinion No. 244, Series of 2007 dated November 13, 2007, confirmed the position of PRA that the jurisprudence found in the NHA Decision is applicable to our titles to our land holdings in Aseana City, insofar as the titles have already been registered in the name of purchasers in good faith and for value, and such registration were completed prior to the PEA Amari Decision. This OGCC Opinion, however, is on the premise that the private parties to whom the land were ultimately conveyed are qualified to own the same under the Constitution and existing laws and jurisprudence.

While the PRA and OGCC are of the opinion that our titles can no longer be invalidated, there is no assurance that the Government or third parties will not challenge our rights to such reclaimed lands. Although PEA, as stated in the PEA Board Resolution No. 3448 Series of 2004 and its letter dated July 15, 2004 to us, has committed to use its best efforts to defend our titles in Aseana City, or to assist us in our defense thereof, should any claim or lawsuit to question our titles be filed against us in the future, there can be no assurance that such defense will be successful. If any such lawsuit against us is successful and our titles are invalidated by the Philippine courts, we may be subject to reversion proceedings and ordered to transfer our titles to our land holdings in Aseana City to the Government.

It is also stated in the said PEA Board Resolution and letter that, "if in any case and at any instance in the future, the Supreme Court of the Philippines shall declare that the said conveyance is unconstitutional or illegal, PEA hereby commits to reimburse your company

and/or assignees the fair market value of your reclaimed land and investments including the improvements that may have been made thereon." There is a possibility that we may be entitled to compensation on a *quantum meruit* basis only, if the ruling by the Supreme Court in the PEA Amari Decision (in particular, the May 6, 2003 decision denying the Motion for Reconsideration) is determined by the court to be applicable to our instance. In the PEA Amari Decision, the Supreme Court stated that despite the nullity of the amended joint venture agreement between PEA and Amari, Amari was not precluded from recovering from PEA in the proper proceedings, on a *quantum meruit* basis, whatever Amari might have incurred in implementing the said joint venture agreement prior to its declaration of nullity.

***We are exposed to risks inherent in the Philippine property market (and especially Metro Manila) as all of our properties are situated in the Philippines.***

We are highly dependent on the performance of the Philippine property market since all of our properties are located in the Philippines. Thus, we are directly affected by the risks that affect the Philippine property market as a whole. Many factors contribute to fluctuations in the Philippine property market including the general demand and supply of properties, increases and decreases in interest rates, inflationary pressures, Government-related real estate policies such as the recent lower loan-to-value ratios for commercial real estate loans and the BSP's tightening of policies related to real estate loans. Any decline in the value of land or real estate in the Philippines may lead to a downward revaluation of our land holdings and other real estate assets, and a decrease in our rental rates.

***Our margins may be affected by increases in our operating and other expenses.***

Our operations may be subject to increases in operating and other expenses due to a number of factors including, but not limited to, any of the following:

- increases in raw material prices;
- increases in labor costs;
- increases in construction costs;
- increases in the rate of inflation;
- changes in laws, regulations or government policies which increase the cost of compliance with such laws, regulations or policies;
- increases in insurance premiums;
- increases in customs duties, business taxes, property taxes and other statutory changes;
- adverse changes in the cost of existing and future debt financing; and
- other unanticipated circumstances or cost increases.

**Item 2. Properties**

As of the date of this report, we own 448 parcels of land with an aggregate land area of approximately 784,705.8 sq.m., comprising 576,276 sq.m. in terms of our land holdings in Aseana City and 208,429.6 sq.m. for land holdings outside Aseana City. In addition, we own eight self-developed buildings with an aggregate floor area of 89,914 sq.m. As of December 31, 2018, we do not lease any properties or building units from any third party.

***Owned real properties***

The parcels of land that we own constitute raw land that forms our land holdings and include areas that are subject to existing land leases, or which have been utilized by our Group for development of real estate projects. The buildings that we own are either occupied by our Group as our offices or leased to third parties pursuant to lease agreements.

As of December 31, 2018, certain parcels of our land are used as collateral in connection with our bank loans and borrowings.

| Mortgaged Land Area (sq.m.) | Creditor | Nature of Loan |
|---|---|---|
| 7,604.0 | Bank of the Philippine Islands | Long-term loan and revolving promissory note line granted to our Company |
| 30,212.0 | Bank of the Philippine Islands | Long-term loan and revolving promissory note Line granted to our Company |
| | | Medium-term loan granted to our subsidiary, Aseana Holdings, Inc. |
| 7,720.0 | BDO Unibank, Inc. | Credit line and domestic bills purchase line granted to our Company |
| 7,897.0 | Security Bank Corporation | Term loan and domestic bills purchase line granted to our subsidiary, Aseana Holdings, Inc. |

The table below sets forth certain basic information on our owned buildings as of the date of this report.

| Location / Building | Total Floor Area (sq.m.) | Usage |
|---|---|---|
| Aseana One | 20,189.10 | Mixed use office building |
| Aseana Two | 14,288.90 | Mixed use office building |
| Aseana Three | 30,914.00 | Mixed use office building |
| Aseana Square | 2,136.70 | Commercial and retail complex |
| Aseana Powerstation Building | 4,710.00 | Commercial and retail complex |
| Aseana Town Center | 12,848.60 | Commercial and retail complex |

| Location / Building | Total Floor Area (sq.m.) | Usage |
|---|---|---|
| DMWAI Building | 1,041.80 | Office with ground floor retail |
| S&R Building (2nd Floor) | 3,785.10 | Mixed used office building |
| **Total** | **89,914.2** | |

As of December 31, 2018, except as disclosed above, there were no mortgages, liens or other encumbrances attached to such owned properties or any limitations on our ownership or usage of such properties, other than liens created by operation of law, voluntary development restrictions imposed upon all tenants in Aseana City due to their acceptance of membership in ABPEA.

***Owned personal properties***

As of December 31, 2018, we owned certain personal property comprising machinery and equipment as described below.

| | Value (in ₱) |
|---|---|
| Machinery and construction equipment......... | 86.3 |
| Transportation equipment............................... | 9.6 |
| Furniture and office equipment....................... | 8.0 |
| Other machinery and equipment.................... | 0.4 |
| **Total.........................................................** | **104.3** |

**Ongoing Projects**

***MidPark Towers***

Comprises of four 15-story buildings on top of a common podium that offers various sizes ranging from 40.3 sq.m. for a studio unit to 105 sq.m. for a three-bedroom unit.

Centrally located in Aseana City, MidPark Towers is located right across our Parqal project and is within walking distance from Ayala Malls Manila Bay and the planned Light Rail Transit Aseana station. MidPark Towers is situated within two to five kilometers from all terminals of Ninoy Aquino International Airport and the recently inaugurated Paranaque Integrated Terminal Exchange (formerly known as Southwest Integrated Bus Terminal Exchange).

***Parqal***

Parqal (formerly Aseana Mainstreet) is a mixed-use project with office and retail spaces that stretches from Diokno Ave. to Macapagal Ave with approximately 67,000 sq.m. of leasable floor area

The project features a climate protected and walkable mixed-use development with a 50% retail component.

***8912 Asean Ave.***

8912 Asean Ave. (formerly Aseana 4) is a 15-story office building with total gross leasable area of approximately 68,000 sq.m. and is the Group's largest office project to date.

The project stretches 120 meters along Aseana Ave. with convenient access to retail options at the Ayala Malls Manila Bay, connected through an elevated walkway. Commercial retail spaces are located on the first level while offices are located starting on the fifth floor and above.

***Pixel Residences***

Centrally located in Aseana City, MidPark Towers is located right across our Parqal project and is is within walking distance from Ayala Malls Manila Bay and the planned Light Rail Transit Aseana station. MidPark Towers is situated within two to five kilometers from all terminals of Ninoy Aquino International Airport and the recently inaugurated Paranaque Integrated Terminal Exchange (formerly known as Southwest Integrated Bus Terminal Exchange).

**Item 3. Legal Proceedings**

There are pending claims and legal actions filed by the Group or against the Group arising from the normal course of its business. Management believes that the ultimate liability, if any, with respect to such litigations, claims and disputes will not materially affect the financial position and results of operations of the Group.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The Company's shares of stock are officially listed in the Philippine Stock Exchange on June 29, 2018.

As of December 31, 2018, the closing price of the Company's shares of stock is P7.80/share.

| | Philippine Stock Exchange Prices (in PhP/Share) | | |
|---|---|---|---|
| | High | Low | Close |
| First Quarter | – | – | – |
| Second Quarter | 11.80 | 9.66 | 10.26 |
| Third Quarter | 10.74 | 8.08 | 8.34 |
| Fourth Quarter | 8.36 | 7.50 | 7.80 |

Shareholders

There are 11 registered holders of common shares of the Company as of February 28, 2019.

The following are the registered holders of the common equity securities of the Company:

| | Stockholder Name | No. of Shares | % to Total Shares |
|---|---|---|---|
| 1. | Delfin J. Wenceslao Jr. | 578,808,847 | 17.04 |
| 2. | Wendel Holdings Co., Inc. | 2,136,554,780 | 62.92 |
| 3. | Alberto Victor P. Fenix Jr. | 100 | 0.00 |
| 4. | Joselito C. Herrera | 5,000 | 0.00 |
| 5. | Jaybee C. Baraquel | 1,000 | 0.00 |
| 6. | Gabrielle Claudia F. Herrera | 500 | 0.00 |
| 7. | Nadezhda Iskra F. Herrera | 500 | 0.00 |
| 8. | Serafin U. Salvador Jr. | 190,000 | 0.01 |
| 9. | Serafin U. Salvador Jr. | 166,700 | 0.00 |
| 10. | PCD Nominee Corporation | 646,242,073 | 0.19 |
| 11. | PCD Nominee Corporation | 33,894,600 | 0.01 |

Dividends

| Class | Declaration Date | No. of Actual Shares Issued | Record Date | Payment date |
|---|---|---|---|---|
| Common shares | January 20, 2017 | 1,000,000,000 | January 15, 2017 | February 15, 2017 |

**Item 6. Management's Discussion and Analysis or Plan of Operation**

**2018**

**DMW's Net Income Accelerates 23% to P1,911 million in 2018**

Financial and Operational Highlights
(In Millions Pesos, except for financial ratios and percentages)

| | Twelve months ended December 31 (AUDITED) | | | | |
|---|---|---|---|---|---|
| | 2018 | % to Revenues | 2017 | % to Revenues | % Change |
| **Profit & Loss Data** | | | | | |
| **Revenues** | 2,152 | **100%** | 2,778 | **100%** | **(23%)** |
| **Cost of services and sales** | 347 | **16%** | 440 | **16%** | **(21%)** |
| **Gross profit** | 1,805 | **84%** | 2,338 | **84%** | **(23%)** |
| **Other operating expenses - net** | 433 | **20%** | 180 | **6%** | **140%** |
| **Other income (expenses)** | 1,205 | **56%** | (66) | **2%** | **1,926%** |
| **Net income attributable to owners of the Parent company** | 1,911 | **89%** | 1,558 | **56%** | **23%** |

| | Dec 31 2018 | % to Total Assets | Dec 31 2017 | % to Total Assets | % Change |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| **Total Assets** | 29,789 | **100%** | 20,374 | **100%** | **46%** |
| **Total Liabilities** | 10,923 | **37%** | 11,055 | **54%** | **(1%)** |
| **Total Equity attributable to owners of the Parent company** | 18,197 | **61%** | 8,660 | **43%** | **110%** |

| | As of the period ended | |
|---|---|---|
| **Other Key Financial Ratios** | **December 31, 2018** | **December 31, 2017** |
| **Current Ratio** | 1.61 | 0.75 |
| **Debt to Equity** | 11% | 29% |
| **Return on Equity** | 14% | 20% |
| **Net income contribution** | 89% | 56% |
| **Recurring Income Contribution** | 88% | 52% |

| | As of the period ended | |
|---|---|---|
| **Key Operating Data** | **December 31, 2018** | **December 31, 2017** |
| **Total leased land area (sq.m.)** | 155,418 | 150,521 |
| **Total leasable floor area (sq.m.)** | 89,914 | 59,000 |
| **Total occupancy rate (leased buildings) (%)** | 98.0% | 94.1% |

***Revenue***

Total consolidated revenue decreased by P626.0 million, or 22.5%, from P2,778.3 million in 2017 to P2,152.3 million in 2018, primarily due to the following:

***Rentals***

Our total rental revenue from rentals increased by P460.4 million, or 32.0%, from P1,440.8 million in 2017 to P1,901.2 million in 2018.

- Rentals of Land. Rentals of land increased by P45.8 million, or 5.0% from P919.4 million in 2017 to P965.2 million in 2018. The increase was primarily attributable to the addition of Prestige Bay Development Corporation as a lessee commencing in March 2018, with a leased land area of 4,897.0 sq.m. Our total leased land area increased from 150,521 sq.m. as of December 31, 2017 to 155,418 sq.m. as of the same period of 2018.

- Rentals of Building. Rentals of building increased by P332.4 million, or 77.4%, from P429.7 million in 2017 to P762.1 million in 2018. The increase was primarily attributable to the effect of the completion and recognition of rentals from Aseana Three starting January 2018. As of December 31, 2017, Aseana Three is not yet completed and no rental revenue has yet been recognized. Our total leased floor area increased from 59,000 sq.m. as of December 31, 2017 to 89,914 sq.m. as of same period of 2018.

- Other revenue. Other revenue increased by P82.1 million, or 89.5%, from P91.7 million as restated in 2017 to P173.8 million in 2018. The increase was primarily attributable to the effect of occupancy in Aseana Three, which contributed to an increase in CUSA fees payments received from our tenants.

***Land Sales***

In order to support its expansion and finance the development of its pipeline projects, the Company usually sells certain lots in Aseana City as part of its financing strategy. As of December 2018, the Parent Company received P1,200.0 million as Other income (see discussion on Other income) which resulted in the Parent Company not needing to sell lots in Aseana City to support the Group's development projects. Hence, no sale of land in Aseana City was transacted for the twelve months ended December 31, 2018. Sale of lots in Aseana City amounted to P1,088.3 million for the same period of 2017.

***Construction Contracts***

In 2018, the Group's construction activities were primarily focused on its internal projects.

Revenue from construction contracts decreased by P71.6 million, or 35.4%, from P202.1 million in 2017 to P130.5 million in 2018. The decrease was attributable primarily to the single large additional pile driving, pile hacking and sheet piling works for the Ayala Malls Manila Bay project in 2017.

### *Sale of Condominium Units*

The revenue from sale of condominium units increased by P72.3, or 153.5%, from P47.1 million in 2017 to P119.4 million in 2018. This increase was attributable primarily to the increase in percentage of completion of Pixel Residences from 18.29% in 2017 to 37.81% in 2018.

In addition, the launch of MidPark Towers resulted to recognition of revenue from certain sales contract that met the revenue threshold. Percentage of completion for MidPark Towers as December 31, 2018 is 10.32%

## *Cost of Services and Sales*

Our consolidated cost of services and sales decreased by P93.0 million, or 21.1%, from P439.8 million in 2017 to P346.8 million in 2018.

### *Rentals*

Costs of rentals increased by P76.7 million, or 56.5%, from P135.7 million in 2017 to P212.4 million in 2018. In January 2018, Aseana Three was completed and was already occupied by certain tenants. The increase in cost was due primarily to an increase in depreciation expenses of P37.7 million, an increase in utilities of P9.9 million, an increase in other material and supplies of P9.6 million, an increase in outside services of P6.7 million, and an increase in repairs and maintenance of P7.9 million.

### *Land Sales*

Costs of land sales decreased by P141.5 million, or 100%, from P141.5 million in 2017 to nil in 2018. As discussed in a previous paragraph, there is no land sale in 2018.

### *Construction Contracts*

Costs of construction contracts decreased by P70.7 million, or 53.5%, from P132.2 million in 2017 to P61.5 million in 2018. Most of the Group's construction activities in 2018 are internal projects.

### *Sale of Condominium Units*

Cost of sale of condominium units increased by P42.6 million, or 140.6%, from P30.3 million in 2017 to P72.9 million in 2018. The increase was attributable primarily to the increase in percentage of completion of Pixel Residences and MidPark Towers as well as the related cost of additional units which are qualified for revenue recognition.

## *Other Operating Income (expenses)*

Other operating income (expenses) increased by P253.1 million, or 140.5%, from P180.1 million in 2017 to P433.2 million in 2018.

***Other Operating Income***

Other operating income decreased by P184.0 million, or 62.7%, from P293.5 million in 2017 to P109.5 million in 2018 due mainly to the sale of certain investment properties in Aseana City which resulted in the gain on sale of P257.7 million in 2017.

***Operating expenses***

Operating expenses increased by P69.2 million, or 14.6%, from P473.6 million in 2017 to P542.7 million in 2018. The increase was attributable primarily to (i) increase in professional fees of P34.7 million due to fees incurred related to initial public offering, (ii) increase in taxes and licenses of P14.8 million, and (iii) increase in salaries and wages of P12.2 million due to the hiring of employees for the Group.

***Other Income (net)***

Other income increased by P1,271.9 million, or 1,929.0% from total net other charges of P65.9 million in 2017 to total net other income of P1,206.0 million in 2018 primarily due to the non-refundable consideration received related to the waiver of rights to purchase a certain parcel of land.

***Finance Income***

Finance income increased by P62.3 million, or 865.3%, from P7.2 million in 2017 to P69.5 million in 2018. The increase was attributable primarily to the recognition of interest income from additional short-term placements.

***Other Income***

Other Income increased by P1,200.0 million, or 100%. The increase was due primarily to the non-refundable consideration received in relation to the Company's giving of its consent in favor of a third party to be able to buy from another party certain parcels of land contributed to a joint arrangement (see note 21.3 to the consolidated financial statements). Subject to certain terms and conditions governing the transfer of such rights to the third party, the Company is entitled to consideration totaling P2,050.0 million over two years.

***Tax Expenses***

Our tax expenses increased by P122.8 million, or 23.0%, from P534.7 million in 2017 to P657.5 million in 2018, representing an effective income tax rate of 19.2% and 30.5% of gross revenue, respectively. The increase in the effective income tax rate was due to the change in revenue mix of the Group and the recognition of taxable other income in 2018.

***Net Profit***

Net profit attributable to parent increased by P352.7 million, or 22.6%, from P1,558.5 million in 2017 to P1,911.2 million in 2018.

***Balance Sheet Accounts***

***Total Assets***

The Company's total assets increased by P9,414.9 million, or 46.2%, from P20,373.8 million as of December 31, 2017 to P 29,788.7 million as of December 31, 2018 due to the following:

- Cash and cash equivalents increased by P6,104.7 million, or 422.6%, from P1,444.5 million to P7,549.2 million as of December 31, 2017 and 2018, respectively, primarily due to the proceeds from the initial public offering.

- Receivables increased by P777.7 million, or 19.3%, from P4,033.6 million to P4,811.3 million as of December 31, 2017 and 2018, respectively, primarily due to deposit made to a certain subcontractor for the on-going construction of office building, recognition of rental receivable based on PAS17 and recognition of additional contracts from sale of condominium units.

- Contract asset increased by P119.4 million, or 252.4%, from P47.3 million to P166.7 million as of December 31, 2017 and 2018, respectively, primarily due to the increase in percentage of completion recognized for Pixel Residences and MidPark Towers having an incremental accomplishment in 2018 of 19.5% and 10.3%, respectively.

- Land and land development cost increased by P207.8 million, or 10.6%, from P1,954.4 million to P2,162.2 million as of December 31, 2017 and 2018, respectively, primarily due to the capitalized costs incurred in developing Aseana City.

- Property development costs increased by P116.3 million, or 19.5%, from P595.1 million to P711.4 million as of December 31, 2017 and 2018, respectively, primarily due to the capitalized cost incurred in constructing Pixel Residences.

- Other current assets increased by P1,302.4 million, or 235.9%, from P552.0 million to P1,854.4 million as of December 31, 2017 and 2018, respectively, primarily due to additional placements to short-term time deposits.

- Investment in joint venture held for termination increased by P127.1 million, or 100%, as of December 31, 2018 primarily due to the reclassification of the carrying amount of its investment in joint venture under Investment in joint venture account in the consolidated financial statements. (see Note 2.28 and 13.2 of Notes to consolidated financial statements).

- Investment property increased by P339.7 million, or 2.2%, from P11,108.7 million to P11,448.4 million as of December 31, 2017 and 2018, respectively, primarily due to the completion of Aseana Three in January 2018.

- Other non-current asset increased by P428.3 million, or 145.0%, from P295.3 million to P723.6 million as of December 31, 2017 and 2018, respectively, primarily due to advance payment to suppliers related to the construction of an office building.

## Total Liabilities

Total liabilities decreased by P132.2 million, or 1.2%, from P11,054.9 million as of December 31, 2017 to P10,922.7 million as of December 31, 2018, respectively, due to the following:

- Loans and borrowings decreased by P548.0 million, or 22.1%, from P2,476.9 million to P1,928.9 million as of December 31, 2017 and 2018, respectively, due to payment of maturing loans.
- Contract liability increased by P86.2 million, or 69.3%, from P124.3 million to P210.5 million as of December 31, 2017 and 2018, respectively, due to the increase in the amount received from real estate customers in excess of the amount the Group has rights to receive based on the progress of the real estate development.
- Deposits and advances increased by P176.5 million, or 15.7%, from P1,121.9 million to P1,298.4 million as of December 31, 2017 and 2018, respectively, mainly due to advance rental and security deposit received from tenants related to new office building.
- Deferred tax liabilities increased by P224.8 million, or 45.3%, from P496.2 million to P721.0 million as of December 31, 2017 and 2018, respectively, due to recognition of income taxes related to deferred rental income.
- Retirement benefit obligation decreased by P38.1 million, or 58%, from P65.7 million to P27.6 million as of December 31, 2017 and 2018, respectively, due to establishment of post-employment benefit plan that is being administered by a trustee bank legally separated from the Group.

## Total Equity

Total equity increased by P9,547.0, or 102.4%, from P9,318.9 million to P18,865.0 million as of December 31, 2017 and 2018, respectively, primarily due to the following:

- Capital stock increased by 25% due to the listing of the Company's shares on June 29, 2018.
- Additional paid-in capital increased by P6,965 million, or 100% as of December 31, 2018 mainly due to recognition of proceeds net of par value of listed shares and transaction costs incidental to the offering.
- Net profit of P1,911.2 million in 2018.

***Other Key Financial Ratios***

The Company's key performance indicators are measured in terms of the following: (a) Current ratio which determines the liquidity of the Company (b) Debt to equity which determines the Company's financial leverage (c) Return on equity which measures the profitability to capital provided by stockholders (d) net income ratio which measures the ratio of net profit to total gross revenue (e) recurring income contribution.

- Current ratio increased to 1.61 from 0.75 as of December 31, 2018 and 2017, respectively, mainly due to the proceeds from the listing of the Company's shares.

- Debt to equity ratio decreased to 6% from 12% as of December 31, 2018 and 2017, respectively, due to payment of maturing loans and the increase in equity due to the listing of shares.

- Return on equity decreased to 14% from 20% as of December 31, 2018 and 2017, respectively, as a result of increase in equity.

- Net income margin increased to 89% as of the period ended December 31, 2018 from 56% as of the same period in 2017 mainly due to the non-refundable consideration received in relation to the waiver of rights to purchase a land which is presented as part of Other income account in the consolidated statements of profit and loss.

- Recurring income contribution increased to 88% in 2018 from 52% in 2017 due to additional lease from the newly constructed building, Aseana Three and due to change in revenue mix.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

**2017**

## DMW's Core Net Income up by 25% to P2,778 million in 2017

Financial and Operational Highlights
(In Millions Pesos, except for financial ratios and percentages)

| | Twelve months ended December 31 (AUDITED) | | | | |
|---|---|---|---|---|---|
| | 2017 | % to Revenues | 2016 | % to Revenues | % Change |
| **Profit & Loss Data** | | | | | |
| **Revenues** | 2,778 | **100%** | 2,104 | **100%** | **32%** |
| **Cost of services and sales** | 440 | **16%** | 453 | **22%** | **-3%** |
| **Gross profit** | 2,338 | **84%** | 1,651 | **78%** | **42%** |
| **Other Operating income (expenses)** | (180) | **6%** | 74 | **4%** | **-143%** |
| **Other Charges - net** | 66 | **2%** | 78 | **4%** | **-15%** |
| **Net income attributable to owners of the Parent company** | 1,558 | **56%** | 1,207 | **57%** | **29%** |

| | Dec 31 2017 | % to Total Assets | Dec 31 2016 | % to Total Assets | % Change |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| **Total Assets** | 20,374 | **100%** | 17,986 | **100%** | **13%** |
| **Total Liabilities** | 11,055 | **54%** | 10,235 | **57%** | **8%** |
| **Total Equity attributable to owners of the Parent company** | 8,660 | **43%** | 7,091 | **39%** | **22%** |

| | As of the period ended | |
|---|---|---|
| **Other Key Financial Ratios** | **December 31, 2017** | **December 31, 2016** |
| **Current Ratio** | 0.75 | 0.58 |
| **Debt to Equity** | 29% | 38% |
| **Return on Equity** | 20% | 19% |
| **Net Income Margin** | 56% | 57% |
| **Recurring Income Contribution** | 52% | 60% |

| **Key Operating Data** | **December 31, 2017** | **December 31, 2016** |
|---|---|---|
| **Total leased land area (sq.m.)** | 150,521 | 140,540 |
| **Total leasable floor area (sq.m.)** | 59,000 | 56,863 |
| **Total occupancy rate (leased buildings) (%)** | 94.1% | 97.6% |

### *Revenue*

Total consolidated revenue increased by P674.7 million, or 32.1%, from P2,103.6 million in 2016 to P2,778.3 in 2017, primarily due to the following:

#### *Rentals*

Our total rental revenue increased by P169.8 million, or 13.4%, from P1,271.0 million in 2016 to P1,440.8 million in 2017.

- Rental of Land. Rental of land increased by P58.9 million, or 6.8% from P860.5 million in 2016 to P919.4 million in 2017. The increase was attributable primarily to the additional Ayala Land land lease in 2017 with an area of 9,981 sq.m. Our total leased land area increased from 140,540 sq.m. as of December 31, 2016 to 150,521 sq.m. as of December 31, 2017.

- Rental of Building. Rental of building increased by P85.1 million, or 24.7% from P344.6 million in 2016 and P429.7 million in 2017. The increase was attributable primarily to the full occupancy of Aseana Town Center and S&R as well as the completion of Aseana Square in June 2017. Our total leased floor area was 56,863 sq.m. and 59,000 sq.m. as of December 31, 2016 and 2017, respectively.

- Other revenue. Other revenue increased by P25.8 million, or 39.2% from P65.9 million in 2016 to P91.7 million in 2017. The increase was attributable primarily to the completion of Aseana Square in June 2017, which generated CUSA fees and reimbursable expenses that we generally charged our tenants.

#### *Land Sales*

Revenue from land sales increased by P487.6 million, or 81.2%, from P600.7 million in 2016 to P1,088.3 million in 2017. The increase was attributable primarily to the increase in sales price. Land prices increased by P65,000 per sq.m, or 35.1% from P185,000 per sq.m in 2016 to P250,000 per sq.m in 2017. The Group sold 4,454 sq.m. of land in 2017 while 3,054 sq.m. in 2016.

#### *Construction Contracts*

Revenue from construction contracts decreased by P29.1 million, or 12.6%, from P231.2 million in 2016 to P202.1 million in 2017. The decrease was attributable primarily to lesser construction services performed by us in 2017 while a single large pile driving works for the Ayala Malls Manila Bay project for its shopping and hotel complex development was substantially completed by the end of December 31, 2016.

#### *Sale of Condominium Units*

The revenue from sale of condominium units increased by P46.4 from P0.7 million in 2016 to P47.1 million in 2017. This increase was attributable primarily to the increase in percentage of completion of Pixel Residences from 3% in 2016 to 18% in 2017.

### *Cost of Services and Sales*

Our consolidated cost of services and sales decreased by P13.1 million, or 2.9%, from P452.9 million in 2016 to P439.8 million in 2017.

#### *Rentals*

Costs of rentals increased by P5.6 million, or 4.3%, from P130.1 million in 2016 to P135.7 million in 2017. In June 2017, Aseana Square was completed and was fully occupied by the end of the same year. The increase in cost was due primarily to an increase in repairs and maintenance of P5.3 million and increase in depreciation expense of P3.4 million.

#### *Land Sales*

Costs of land sales increased by P21.1 million, or 17.5%, from P120.4 million in 2016 to P141.5 million in 2017. The increase was attributable primarily to the increase in land area sold from 3,054.0 sq.m. in 2016 to 4,454.0 sq.m. in 2017.

#### *Construction Contracts*

Costs of construction contracts decreased by P69.8 million, or 34.6%, from P202.0 million in 2016 to P132.2 million in 2017. The decrease was attributable primarily to the decrease in construction activities in 2017.

#### *Sale of condominium units*

Sale of condominium units increased by P29.9 million, or 7,475%, from P0.4 million in 2016 to P30.3 million in 2017 mainly due to the increase in percentage of completion of Pixel Residences.

### *Other Operating Income (expenses)*

#### *Other Operating Income*

Other operating income decreased by P74.8 million, or 20.3%, from P368.4 million in 2016 to P293.5 million in 2017 primarily to the decrease in area of land sold from 4,716 sq.m. in 2016 to 1,706 sq.m. in 2017. In 2016, we had a gain on sale of investment property amounting to P312.5 million as a result of the sale of two parcels of land in Aseana City with an approximate land area of 4,716 sq.m. In 2017, we sold an approximate land area of 1,706 sq.m.

#### *Operating expenses*

Operating expenses increased by P178.6 million, or 60.5%, from P295.0 million in 2016 to P473.6 million in 2017. The increase was attributable primarily to (i) increase in professional fees of P76.7 million arising from the arbitration with Alphaland Development Inc., (ii) increase in commission expenses of P40.1 million due to the increase in land sale transactions, (iii) increase in salaries and wages of P28.2 million due to the hiring of additional employees for the Group and (iv) increase in association dues of P11.1 million.

***Other Charges (net)***

Other charges decreased by P12.1 million, or 15.5% from P78.0 million in 2016 to P65.9 million in 2017.

***Finance Costs***

Finance costs decreased by P11.7 million, or 13.9%, from P83.8 million in 2016 to P72.1 million in 2017. The decrease was attributable primarily to the re-payment of loans and borrowings.

***Finance Income***

Finance income increased by P3.2 million, or 80.9%, from P4.0 million in 2016 to P7.2 million in 2017. The increase was attributable primarily to the recognition of interest income from short-term time deposits.

***Other Income***

Other Income decreased by P7.1 million, or 100%. The decrease was due primarily to acquisition of Reine in 2016 as a wholly owned subsidiary of AHI. The acquisition resulted to a gain amounting to P7.1 million in 2016. No such transaction happened in 2017.

***Tax Expenses***

Our tax expenses increased by P97.7 million, or 22.4%, from P437.0 million in 2016 to P534.7 million in 2017, representing an effective income tax rate of 20.8% and 19.2% of gross revenue, respectively. The decrease in the effective income tax rate was due to the benefit derived from electing the optional standard deduction amounting to 40% of gross sales or gross receipts.

***Net Profit***

As a result of land sales as well as full occupancy of Aseana Square, Aseana Town Center and S&R, our net profit increased by P348.8 million, or 28.8%, from P1,209.0 million in 2016 to P1,557.8 million in 2017. Our net profit margins in 2016 and 2017 were 57.5% and 56.1%, respectively.

## *Balance Sheet Accounts*

### *Total Assets*

The Company's total assets increased by P2,387.8 million, or 13.3%, from P17,986.0 million as of December 31, 2016 to P 20,373.8 million as of December 31, 2017 due to the following:

- Cash and cash equivalents increased by P625.0 million, or 76.3%, from P819.5 million to P1,444.5 million as of December 31, 2016 and 2017, respectively, primarily due to the increase in sales price of land sold.

- Receivables increased by P373.8 million, or 10.3%, from P3,659.7 million to P4,033.6 million as of December 31, 2016 and 2017, respectively, primarily due to recognition of rental receivable based on PAS17, recognition of additional contracts from sale of condominium units net of collection of instalment receivable related to sale of land.

- Contract asset increased by P46.6 million, or 6,657.1%, from P0.7 million to P47.3 million as of December 31, 2016 and 2017, respectively, primarily due to the increase in percentage of completion recognized for Pixel Residences having an incremental accomplishment in 2017 of 15.7%.

- Land and land development decreased by P54.2 million, or 2.7%, from P2,008.7 million to P1,954.4 million as of December 31, 2016 and 2017, respectively, primarily due to reclassification of certain portion of land held for lease to Investment property.

- Property development costs increased by P570.8 million, or 2,349.0%, from P24.3 million to P595.1 million as of December 31, 2016 and 2017, respectively, primarily due to the cost incurred in constructing Pixel Residences.

- Other current assets increased by P287.1 million, or 108.4%, from P264.9 million to P552.0 million as of December 31, 2016 and 2017, respectively, primarily due to the increase in Input VAT paid related to payment to subcontractors.

- Investment property increased by P624.4 million, or 4.2%, from P10,484.3 million to P11,108.7 million as of December 31, 2016 and 2017, respectively, primarily due to the completion of Aseana Square in June 2017 and construction of Aseana Three.

- Other non-current asset decreased by P84.1 million, or 23.7%, from P379.4 million to P295.3 million as of December 31, 2016 and 2017, respectively, primarily due to recoupment of advance payment to supplier related to the construction of an office building.

**Total Liabilities**

Total liabilities increased by P820.0 million, or 8.0%, from P10,234.9 million as of December 31, 2016 to P11,054.9 million as of December 31, 2017, respectively, due to the following:

- Loans and borrowings decreased by P186.5 million, or 7%, from P2,663.4 million to P2,476.9 million as of December 31, 2016 and 2017, respectively, due to payment of maturing loans.

- Trade and other payables increased by P589.4 million, or 112.4%, from P524.5 million to P1,113.9 million as of December 31, 2016 and 2017, respectively, due to billings from supplier for project contractors particularly Aseana Three and Pixel Residences.

- Contract liability increased by P118.1 million, or 1,904.8%, from P6.2 million to P124.3 million as of December 31, 2016 and 2017, respectively, due to the increase in the amount received from real estate customers in excess of the amount the Group has rights to receive based on the progress of the real estate development.

- Deposits and advances increased by P96.6 million, or 9.4%, from P1,025.3 million to P1,121.9 million as of December 31, 2016 and 2017, respectively, mainly due to advance rental and security deposit received from tenants related to new office building, Aseana Square and Aseana Town Center.

- Deferred tax liabilities increased by P219.5 million, or 79.3%, from P276.7 million to P496.2 million as of December 31, 2016 and 2017, respectively, due to recognition of income taxes related to deferred rental income.

***Other Key Financial Ratios***

The Company's key performance indicators are measured in terms of the following: (a) Current ratio which determines the liquidity of the Company (b) Debt to equity which determines the Company's financial leverage (c) Return on equity which measures the profitability to capital provided by stockholders (d) net income ratio which measures the ratio of net profit to total gross revenue (e) recurring income contribution.

- Current ratio increased to 0.75 from 0.58 as of December 31, 2017 and 2016, respectively, mainly due to the increase in cash as a result of increase in selling price of land sold.

- Debt to equity ratio decreased to 29% from 38% as of December 31, 2017 and 2016, respectively, due to payment of maturing loans.

- Return on equity increased to 20% from 17% as of December 31, 2017 and 2016, respectively, as a result of increase in results of operations.

- Net income margin slightly decreased to 56% from 57% as of December 31, 2017 and 2016, respectively mainly due to the change in sales mix of the Company.

- Recurring income contribution decreased to 52% from 60% as of December 31, 2017

and 2016, respectively due to change in sales mix.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

**2016**

**DMW's Net Income up by 43% to P1,207 million in 2016**

Financial and Operational Highlights
(In Millions Pesos, except for financial ratios and percentages)

| | Twelve months ended December 31 (AUDITED) | | | | |
|---|---|---|---|---|---|
| | **2016** | **% to Revenues** | **2015*** | **% to Revenues** | **% Change** |
| **Profit & Loss Data** | | | | | |
| **Revenues** | 2,104 | **100%** | 1,587 | **100%** | **33%** |
| **Cost of services and sales** | 453 | **22%** | 268 | **17%** | **69%** |
| **Gross profit** | 1,651 | **78%** | 1,319 | **83%** | **25%** |
| **Other operating income (expenses)** | 74 | **4%** | (4.3) | **0%** | **1,820%** |
| **Other charges - net** | 78 | **4%** | 142 | **9%** | **-45%** |
| **Net income attributable to owners of the Parent company** | 1,207 | **57%** | 844 | **53%** | **43%** |

| | **Dec 31 2016** | **% to Total Assets** | **Dec 31 2015*** | **% to Total Assets** | **% Change** |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| **Total Assets** | 17,986 | **100%** | 16,910 | **100%** | **6%** |
| **Total Liabilities** | 10,235 | **57%** | 10,351 | **61%** | **(1%)** |
| **Total Equity attributable to owners of the Parent company** | 7,091 | **39%** | 5,902 | **35%** | **20%** |

| | As of the period ended | |
|---|---|---|
| **Other Key Financial Ratios** | **December 31, 2016** | **December 31, 2015*** |
| **Current Ratio** | 0.58 | 0.56 |
| **Debt to Equity** | 38% | 49% |
| **Return on Equity** | 19% | 15% |
| **Net income margin** | 57% | 53% |
| **Recurring income contribution** | 60% | 74% |

| | As of the period ended | |
|---|---|---|
| **Key Operating Data** | **December 31, 2016** | **December 31, 2015** |
| **Total leased land area (sq.m.)** | 140,540 | 138,900 |
| **Total leasable floor area (sq.m.)** | 56,863 | 45,432 |
| **Total occupancy rate (leased buildings) (%)** | 97.6% | 86.6% |

**The Group also restated its financial statements for and as of the period ended December 31, 2015 to conform with the current year presentation, which did not result in any material impact as it only affected presentation aspects. In 2018, the Group adopted PFRS 9 – Financial Instruments and PFRS 15 – Revenue from Contracts with Customers and were applied retrospectively to each prior reporting period in accordance with PAS 8. Please see Note 2 of the consolidated financial statements for a detailed discussion of the restatement.*

***Revenue***

Total consolidated revenue increased by P516.4 million, or 32.5%, from P1,587.2 million in 2015 to P2,103.6 million in 2016, primarily due to the following:

***Rentals***

Our revenue from rentals increased by P95.8 million, or 8.2%, from P1,175.2 million in 2015 to P1,271.0 million in 2016.

- Rental of Land. Rental of land increased by P57.3 million, or 7.1% from P803.2 million in 2015 to P860.5 million in 2016. The increase was primarily attributable to the addition of Globeway Property Ventures as a lessee commencing in June 2016, with a leased land area of 4,897.0 sq.m. Our total leased land area increased from 134,003 sq.m. as of December 31, 2015 to 140,540 sq.m. as of December 31, 2016.

- Rental of Building. Rental of building increased by P33.0 million, or 10.6%, from P311.6 million in 2015 to P344.6 million in 2016. The increase was primarily attributable to the full year effect of renting out Aseana Two in 2016. Aseana Two started leasing out its office spaces in January 2015 and was fully leased out by August of the same year. In December 2016, Aseana Town Center became fully leased out. Our total leased floor area was 45,432.3 sq.m. and 56,863.4 sq.m. as of December 31, 2015 and 2016, respectively.

- Other revenue. Other revenue increased by P5.6 million, or 9.3%, from P60.3 million in 2015 to P65.9 million in 2016. The increase was primarily attributable to the full year effect of occupancy in Aseana Two, which contributed to an increase in CUSA fees payments received from our tenants.

***Land Sales***

The increase of P270.9 million, or 82.2%, in revenue from land sales was due primarily to the escalation of sales prices from P125,000 per sq.m. in 2015 to P185,000 per sq.m. in 2016. The land area sold also increased from 2,638.0 sq.m. in 2015 to 3,054.0 sq.m. in 2016.

***Construction Contracts***

Revenue from construction contracts increased by P148.9 million, or 180.9%, from P82.3 million in 2015 to P231.2 million in 2016. The increase was attributable primarily to the substantial completion of pile driving works for the Ayala Malls Manila Bay. Construction services for the Ayala Malls Manila Bay started in January 2016 and were 97.2% completed by the end of December 31, 2016.

***Sale of Condominium Units***

The revenue from sale of condominium units was P0.7 million in 2016. This revenue was attributable primarily to recognition of four residential units and two parking slots, for a total of six units, in Pixel Residences that reached the 20% threshold under our revenue recognition policy. A sale of a condominium unit is recognized when 20% of the

contract price has been collected. The construction completion percentage of Pixel Residences was 2.63% as of December 31, 2016. We did not sell any condominium units in 2015.

### *Cost of Services and Sales*

Our consolidated cost of services and sales increased by P185.2 million, or 69.2%, from P267.7 million in 2015 to P452.9 million in 2016.

#### *Rentals*

Costs of rentals decreased by P4.9 million, or 3.6%, from P135.0 million in 2015 to P130.1 million in 2016. The decrease was attributable primarily to the (i) decrease in real property tax of P2.9 million, and (ii) decrease in depreciation of P7.5 million due to a change in management's assumption on the useful life of the buildings. These decreases were offset in part by the increase in outside services of P7.4 million due to a commission incurred related to the lease by Fuzion International Group of Aseana Town Center.

#### *Land Sales*

Cost of land sales increased by P47.1 million, or 64.3%, from P73.3 million in 2015 to P120.4 million in 2016, due primarily to the increase in land area sold from 2,638.0 sq.m. in 2015 to 3,054.0 sq.m. in 2016.

#### *Construction Contracts*

Costs of construction increased by P142.6 million, or 240.1% from P59.4 million in 2015 to P202.0 million in 2016. The increase was due primarily to the substantial completion of pile driving works for the Ayala Malls Manila Bay which started in January 2016, and construction were 97.2% complete by December 31, 2016.

#### *Sale of Condominium Units*

The cost of sale of condominium units includes the actual cost and the estimated cost to complete. There were no sales of condominium units in 2015, as we started commercial operations only in 2016.

### *Other Operating Income (expenses)*

Other operating income – net increased by P77.7 million, or 1,793%, from total net operating expense amounting to P4.3 million in 2015 to total net operating income amounting to P73.4 million.

#### *Other Operating Income*

Other operating income increased by P102.6 million, or 38.6%, from P265.8 million in 2015 to P368.4 million. In 2016, we had a gain on sales of investment property amounting to P312.5 million in relation to the sale of two parcels of land with an approximate total land area of 4,716 sq.m. to Anchorland Holdings, Incorporated. The

sales price per square meter increased by P25,000 per sq.m., or 20% from P125,000 in 2015 to P150,000 in 2016.

### *Operating expenses*

General and administrative expenses increased by P24.9 million, or 8.4%, from P270.1 million in 2015 to P295.0 million in 2016. The increase was attributable to increase in salary expenses of P8.7 million due to additional employees, increase in repairs and maintenance costs of P8.1 million due to the minor repairs on our buildings, increase in commission expenses of P5.3 million due to increase in the land area sold, increase in association dues of P4.4 million due to increase in the membership due rates. These increases were offset in part by a decrease in taxes and licenses of P9.8 million due to our availment of an early payment discount offered on real property tax by the local authorities.

## *Other Charges - net*

Other net charges decreased by P63.6 million, or 44.9% from P141.6 million in 2015 to P78.0 million in 2016 mainly due to re-payment of loans thus, decrease in finance costs.

### *Finance Costs*

Finance costs decreased by P63.9 million, or 43.3%, from P147.7 million in 2015 to P83.8 million in 2016. The decrease was attributable primarily to a decrease in interest expense of P19.7 million due to lower interest rates and re-payment of loans and borrowings.

### *Finance Income*

Finance income decreased by P2.8 million, or 41.2%, from P6.8 million in 2015 to P4.0 million in 2016. The decrease was attributable primarily to a recognition of foreign currency gain on our dollar accounts in 2015.

### *Other Income*

Other income increased by P7.1 million, or 100% primarily due to recognition of gain from acquisition of a subsidiary.

## *Tax Expenses*

Our tax expenses increased by P107.1 million, or 32.5%, from P329.9 million in 2015 to P437.0 million in 2016, representing an effective income tax rate of 20.8% of gross revenue in 2016 and 2015.

## *Net Profit*

Based on the above factors, our net profit increased by P365.4 million, or 43.3%, from P843.6 million in 2015 to P1,209.0 million in 2016. Our net profit margins in 2015 and 2016 were 53.2% and 57.5%, respectively.

***Balance Sheet Accounts***

***Total Assets***

The Company's total assets increased by P1,075.7 million, or 6.4%, from P16,910.3 million as of December 31, 2015 to P17,986.0 million as of December 31, 2016 due to the following:

- Cash and cash equivalents increased by P179.0 million, or 27.9%, from P640.5 million to P819.5 million as of December 31, 2015 and 2016, respectively, primarily due to the increase in selling price of land sold.

- Receivables increased by P1,052.8 million, or 40.4%, from P2,606.9 million to P3,659.7 million as of December 31, 2015 and 2016, respectively, primarily due to installment receivable related to the sale of land and recognition of rental receivable based on PAS17.

- Property development costs increased by P24.3 million, or 100%, from nil to P24.3 million as of December 31, 2015 and 2016, respectively, primarily due to the cost incurred in constructing Pixel Residences.

- Land and land development cost decreased by P216.8 million, or 9.7%, from P2,225.5 million to P2,008.7 million as of December 31, 2015 and 2016, respectively, due to reclassification to investment of property of cost of land held for lease amounting to P186.5 million, cost of sale of land amounting to P120.4 million net of cost incurred in developing the Aseana City amounting to P90.0 million.

- Other current assets increased by P13.7 million, or 5.5%, from P251.2 million to P264.9 million as of December 31, 2015 and 2016, respectively, primarily due to the increase in Input VAT paid related to payment to subcontractors.

- Investment property decreased by P116.4 million, or 1.1%, from P10,367.9 million to P10,484.3 million as of December 31, 2015 and 2016, due mainly to sale of land amounting to P400.6 million. The same was offset by the recognition of land and building acquired through acquisition of Reine amounting to P160.0 million, the construction cost of Aseana Three amounting to P234.5 million, and reclassification from Land and Land Development account to Investment Property account due to change in management intention to hold the related land for rental purposes amounting to P186.5 million.

- Other non-current asset decreased by P20.2 million, or 5.6%, from P359.2 million to P379.4 million as of December 31, 2015 and 2016, respectively, primarily due to recoupment of advance payment to supplier related to the construction of an office building.

**Total Liabilities**

Total liabilities decreased by P116.5 million, or 1.1%, from P10,351.5 million as of December 31, 2015 to P10,234.9 million as of December 31, 2016, respectively, due to the following:

- Loans and borrowings decreased by P216.1 million, or 7.5%, from P2,879.5 million to P2,663.4 million as of December 31, 2015 and 2016, respectively, due to payment of maturing loans.
- Trade and other payables decreased by P59.6 million, or 10.2%, from P584.1 million to P524.5 million as of December 31, 2015 and 2016, respectively, due to payment of billings from various supplier amounting to P91.9 million, net of accrual of income tax payable amounting to P44.4 million.
- Contract liability increased by P6.2 million, or 100.0%, from nil to P6.2 million as of December 31, 2015 and 2016, respectively, due to the increase in the amount received from real estate customers in excess of the amount the Group has rights to receive based on the progress of the real estate development.
- Deposits and advances decreased by P67.4 million, or 6.2%, from P1,092.7 million to P1,025.3 million as of December 31, 2015 and 2016, respectively, mainly due application of buyer's deposit related to land sold amounting to P141.8 million offset by collection of advance rental and security deposit from tenants related to new office building, Aseana Square and Aseana Town Center amounting to P61.3 million.
- Deferred tax liabilities increased by P201.6 million, or 268.4%, from P75.1 million to P276.7 million as of December 31, 2015 and 2016, respectively, due to recognition of income taxes related to deferred rental income.

***Other Key Financial Ratios***

The Company's key performance indicators are measured in terms of the following: (a) Current ratio which determines the liquidity of the Company (b) Debt to equity which determines the Company's financial leverage (c) Return on equity which measures the profitability to capital provided by stockholders (d) net income ratio which measures the ratio of net profit to total gross revenue

Current ratio increased to 0.58 from 0.56 as of December 31, 2016 and 2015, respectively, mainly due increase in cash from the proceeds of land sales.

Debt to equity ratio decreased to 38% from 49% as of December 31, 2016 and 2015, respectively, due to payment of maturing loans.

Return on equity increased to 19% from 15% as of December 31, 2016 and 2015, respectively, as a result in the increase in results of operations.

Net income margin increased to 58% for the period ended December 31, 2016 from 53% for the same period in 2015 mainly due to the increase in selling prices of land sold.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

**Item 7. Financial Statements**

Please see the attached 2018 consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules.

**Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

**Independent Public Accountants**

Punongbayan & Araullo, a member firm of Grant Thornton International Ltd., independent auditors, has audited our consolidated financial statements as of and for the years ended December 31, 2016, 2017 and 2018.

Punongbayan & Araullo has acted as our external auditor since 2010. Romualdo V. Murcia III is our current audit partner and has served as such since 2010.

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

We have not had any material disagreements on accounting and financial disclosures with our current external auditors for the same periods or any subsequent interim period. Punongbayan & Araullo has neither shareholdings in us nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in us. Punongbayan & Araullo will not receive any direct or indirect interest in us or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The following table sets out the aggregate fees billed for each of the last two fiscal years for professional services rendered by Punongbayan & Araullo.

| | 2017 | 2018 |
|---|---|---|
| | **(₱ in millions)** | |
| Audit and audit-related fees | | |
| Audit services | 2.5 | 2.5 |
| Other assurance and related services | 0.3 | 2.2 |
| All other fees | 0.0 | 0.2 |
| **Total** | 2.8 | 4.9 |

In relation to the audit and review of our consolidated financial statements, our Manual provides that the Audit and Risk Committee shall, among other activities (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of

policies, controls, processes and activities of our Company; (ii) ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors; and (iii) ensure our compliance with acceptable auditing and accounting standards and regulations.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Issuer

The following table sets out certain information regarding the members of the Board and our senior management. All members of the Board and executive officers listed below are citizens of the Philippines.

| Name | Age | Position |
|---|---|---|
| Delfin J. Wenceslao, Jr. | 75 | Director, President and Chairman of the Board |
| Sylvia C. Wenceslao | 73 | Vice President for Corporate Social Responsibility |
| Delfin Angelo C. Wenceslao | 39 | Director and Chief Executive Officer |
| Paolo Vincent C. Wenceslao | 42 | Director and Chief Operating Officer |
| Carlos Delfin C. Wenceslao | 47 | Director and Vice President for Logistics |
| Edwin Michael C. Wenceslao | 43 | Director and Vice President for Treasury and Administration |
| Alberto P. Fenix, Jr. | 74 | Independent Director |
| Alberto E. Pascual | 66 | Independent Director |
| Atty. Heherson M. Asiddao, CPA | 40 | Chief Finance Officer |
| Atty. Paul Mar M. Quinto | 48 | Chief Legal Officer and Corporate Secretary |
| Rachelle C. Paunlagui | 33 | Investor Relations Officer |
| Jorge Vincent G. Manalili | 36 | Compliance Officer |

The business experience for the past five years of each of our Directors and executive officers is set out below.

**Delfin J. Wenceslao, Jr**., *Director, President and Chairman of the Board*

Mr. Delfin J. Wenceslao, Jr. is the President, Chairman of the Board and co-founder of our Company since April 1965. He is also the President or Chairman of all of our Group companies. In addition, he is the former President of the Philippine Constructors Association, a board member of the International Federation of Asian and Western Pacific Contractors' Associations, and a member of the Chamber of Real Estate & Builders' Associations, Inc. Mr. Wenceslao, Jr. is a licensed real estate broker and holds a Bachelor of Science degree in Economics from the Ateneo De Manila University, a Master of Business Administration degree and a Doctorate of Business Administration from Pamantasan Lungsod ng Maynila.

**Sylvia C. Wenceslao**, *Vice President for Corporate Social Responsibility*

Ms. Sylvia C. Wenceslao is the Vice President for Corporate Social Responsibility of our Company since January 1992. She is the President of S Foods, Inc. and D Foods, Inc., the Vice Chairman of Wendel Construction Company Inc., a director and Vice President of Fabricom, Inc., the Treasurer of Philippine Ecopanel Inc., Wendel Holdings Company Inc. and Wendel

Osaka Realty Corporation, and a director of Aseana Holdings, Inc. She also holds executive positions in almost all of our Group companies.

**Delfin Angelo C. Wenceslao**, *Director and Chief Executive Officer*

Mr. Delfin Angelo C. Wenceslao is a Director and the Chief Executive Officer of our Company since June 2015. He is the President of Aseana Holdings, Inc., Aseana Gas Energy Corp. and U-City Technologies Philippines, Inc. He is also the Managing Director of Aseana Real Estate and Management Corp. He serves as the Chief Executive Officer of ABPEA and Vice President of Property Management of Aseana Residential Holdings Corp. (formerly Bowood Holdings, Inc.) and Portal Holdings, Inc. He also serves as an executive officer for almost all of our Group companies. Mr. Wenceslao is a licensed real estate broker and holds a Bachelor of Arts degree in Management Economics from Ateneo de Manila University and a Master of Science degree in Real Estate Development from Massachusetts Institute of Technology.

**Paolo Vincent C. Wenceslao**, *Director and Chief Operating Officer*

Mr. Paolo Vincent C. Wenceslao is a Director and the Chief Operating Officer of our Company since June 2015. He is the President of Wendel Ground Improvement, Inc., and Vice President of Operations of Aseana Residential Holdings Corp. (formerly Bowood Holdings, Inc.), Portal Holdings Inc. and ABCC. He is also the Chief Operating Officer of ABPEA and serves as a director of a majority of our Group companies. Mr. Wenceslao is a licensed civil engineer and real estate broker. He holds a Bachelor of Science degree in Civil Engineering from De La Salle University.

**Edwin Michael C. Wenceslao**, *Director and Treasurer*

Mr. Edwin Michael C. Wenceslao is a Director and the Treasurer of our Company since 2002. He is the President of Aquadisk Corporation and Managing Director of S Foods Corp., D. Foods Corp., P. Foods Inc., Alphainvest Corporation and Grandwen-B Gas Corp. He is the Chief Financial Officer of ABPEA. He also serves as a director and Treasurer of Aseana Holdings, Inc., Fabricom, Inc., BAHI and other affiliates of our Company. He is a director and Treasurer of Aseana Residential Holdings Corp. (formerly Bowood Holdings, Inc.), Aseana Gas Energy Corp. and U-City Technologies Philippines, Inc. He likewise serves as a director of Portal Holdings, Inc., WHI and other affiliates of our Company. Mr. Wenceslao holds a Bachelor of Arts degree in Humanities with specialization in Entrepreneurial Management from the University of Asia and the Pacific and a Master of Business Administration degree from the Ateneo Graduate School of Business. Mr. Wenceslao also received financial training at Jupiter Asset Management in London, England.

**Carlos Delfin C. Wenceslao**, *Director and Vice President for Logistics*

Mr. Carlos Delfin C. Wenceslao is a Director of our Company since May 1997. He is the President of Urban Agro Products, Inc., the Executive Vice President of SHLP-BBP Realty Inc., and the Corporate Secretary of ABPEA. He is a director and Vice President of Logistics of Aseana Residential Holdings Corp. (formerly Bowood Holdings, Inc.) and Portal Holdings, Inc. He is a director of Aseana Holdings, Inc., WHI, and other affiliates of our Company.

**Alberto P. Fenix, Jr.**, *Independent Director*

Dr. Alberto P. Fenix, Jr. was elected as an independent Director of our Company on February 23, 2018. He has over 40 years of experience in various industries such as manufacturing, mining, commercial and investment banking, and real estate. He is a director of SPC Power Corporation and was also a director of Victorias Milling Company, Inc. He is also the Chairman and President of Fenix Management and Capital, Inc. and Alpina Realty, Inc., as well as President of Ivoclar Vivadent, Inc. Dr. Fenix holds a master's and doctorate degrees in Industrial Management from Massachusetts Institute of Technology's Sloan School of Management and a bachelor's degree in Mathematics from the Ateneo de Manila University.

**Alberto E. Pascual**, *Independent Director*

Mr. Alberto E. Pascual was elected as an independent Director of our Company since January 2017. He was a Senior Vice President and Corporate Banking Division Head at the Bank of the Philippine Islands and also a Senior Vice President and Retail Mortgage Division Head at BPI Family Savings Bank. In addition, he held various key positions in the following companies and committees: a member of Unibank Credit Committee, Chairman of Division I Sub-Credit Committee, Vice Chairman of Unibank ROPOA Sub-Credit Committee, President of Santiago Land Development Corporation, a director of BPI Leasing Corporation, a director of BPI Rental Corporation, a member of both BPI Leasing Corporation and BPI Rental Corporation's respective risk management, audit and asset liability committees, and a member of the credit committee of BPI Family Savings Bank. Mr. Pascual graduated with a Bachelor of Science degree in Business Administration, major in Financial Management, from the University of the Philippines, Diliman, and also holds a Master of Business Administration degree from the Ateneo Graduate School of Business.

**Atty. Heherson M. Asiddao, CPA**, *Chief Finance Officer*

Atty. Heherson M. Asiddao is the Chief Finance Officer of our Company since 2015. He had extensive experience as an auditor with Punongbayan & Araullo in the Philippines prior to joining us. He also has experience in a real estate company and a listed construction company. Atty. Asiddao is a member of the Philippine Institute of Certified Public Accountants and the Integrated Bar of the Philippines. He holds a Bachelor of Science degree in Accountancy and a Bachelor of Laws degree from San Beda College.

**Atty. Paul Mar M. Quinto**, *Chief Legal Officer and Corporate Secretary*

Atty. Paul Mar M. Quinto is the Chief Legal Officer and Corporate Secretary of our Company since June 25, 2015. He is our in-house Legal Counsel for all of our Group companies and also possesses legal private practice and other in-house working experience prior to joining us. Atty. Quinto studied and finished his Political Science and Law degrees from the University of the Philippines and is a member of the Integrated Bar of the Philippines.

**Rachelle C. Paunlagui**, *Investor Relations Officer*

Ms. Rachelle C. Paunlagui is the Investor Relations Officer of our Company since 2018. Prior to joining our Company, she served as the head of investor relations for a global manufacturing solutions company and for a holding company engaged in mineral resources. She began her career at Thomson Reuters where she worked with various public companies in the

real estate, financials, and technology sectors globally. She holds a Bachelor of Science degree in Commerce and a Master of Business Administration from De La Salle University.

**Atty. Jorge Vincent G. Manalili**, *Compliance Officer*

Atty. Jorge Vincent G. Manalili is the Compliance Officer of our Company since 2018. He has extensive experience in negotiating and handling administrative investigations and hearings. Atty. Manalili is a member of the Integrated Bar of the Philippines. He holds a Bachelor of Laws degree from Arellano University School of Law and a Bachelor of Arts in International Studies Major in Philippine Government and External Relations from San Beda College Alabang. Atty. Jorge Vincent G. Manalili is no longer connected with the Group effective February 28, 2019.

**Significant Employees**

We consider the collective efforts of our employees as vital to our success. We do not solely rely on key individuals for the conduct of our business. Therefore, the resignation or loss of any non-executive employee will not have any significant, adverse effect on our business. No special arrangement with non-executive employees to assure their continued stay with us exists, other than standard employment contracts.

**Family Relationships**

Mr. Delfin J. Wenceslao, Jr. and Ms. Sylvia C. Wenceslao are spouses and the parents of Messrs. Carlos Delfin, Edwin Michael, Paolo Vincent and Delfin Angelo, all surnamed Wenceslao. Ma. Victoria W. San Luis is the sister of Mr. Delfin J. Wenceslao, Jr. Further, Wendel Holdings Co., Inc. is majority owned by Mr. Delfin J. Wenceslao, Jr.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among our Directors, executive officers and shareholders.

**Involvement in Certain Legal Proceedings of Directors and Executive Officers**

To the best of our knowledge and belief and after due inquiry, none of the Directors, nominees for election as director, or executive officers of our Group have in the five year period prior to the date of this report

(1) had any petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within a two-year period of that time;

(2) convicted by final judgment in a criminal proceeding, domestic or foreign, or have been subjected to a pending judicial proceeding of a criminal nature, domestic or foreign, excluding traffic violations and other minor offenses;

(3) subjected to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities; or

(4) found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

**Item 10. Executive Compensation**

***Compensation***

The following table sets out our Chief Executive Officer ("CEO") and the four most highly compensated executive officers for the year ended December 31, 2018:

| Name | Position |
|---|---|
| Delfin Angelo C. Wenceslao | Director and Chief Executive Officer |
| Paolo Vincent C. Wenceslao | Director and Chief Operating Officer |
| Edwin Michael C. Wenceslao | Director and Treasurer |
| Carlos Delfin C. Wenceslao | Director and Vice President for Logistics |
| Atty. Heherson M. Asiddao, CPA | Chief Finance Officer |

The following table identifies and summarizes the aggregate compensation of our CEO and the four most highly compensated executive officers, as well as the aggregate compensation paid to all other officers and Directors as a group, for the years ended December 31, 2017, 2018 and 2019:

| | Year | Total (P million) |
|---|---|---|
| CEO and the four most highly compensated executive officers named above .................................... | Actual 2017 | 24.0 |
| | Actual 2018 | 24.0 |
| | Projected 2019 | 26.4 |
| Aggregate compensation paid to all other officers and Directors as a group unnamed.......................... | Actual 2017 | 44.6 |
| | Actual 2018 | 44.6 |
| | Projected 2019 | 49.1 |

Members of the Board of Directors are given a standard per diem of P50,000 per Board meeting.

***Standard Arrangements***

Other than payment of reasonable per diem of P50,000 for every Board meeting, there are no standard arrangements pursuant to which our Directors are compensated directly or indirectly, for any services provided as a director.

***Other Arrangements***

There are no arrangements pursuant to which any of our Directors is compensated, directly or indirectly, for any service provided as a director.

**Warrants and Options Outstanding**

As of December 31, 2018, there are no outstanding warrants or options held by our CEO, the named executive officers, and all other officers and Directors as a group.

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

a. Security Ownership of Certain Record and Beneficial Owners of more than 5% as of December 31, 2018:

| Title of Securities | Name and Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares held | Percent of Class |
|---|---|---|---|---|---|
| Common | Wendel Holdings Co. Inc.,[(1)]<br><br>*306 E. Rodriguez Sr. Blvd., Quezon City* | See Note 1 below | Filipino | 2,136,554,780 | 62.92% |
| Common | Delfin J. Wenceslao Jr.<br>*Cruzada St., Urdaneta Village, Makati City* | Record owner is also beneficial owner | Filipino | 578,808,847 | 17.04% |
| Common | PCD Nominee Corporation | PCD Participants | Filipino | 646,242,073 | 19.03% |

*Note:(1) WHI is beneficially owned by Delfin J. Wenceslao, Jr. – 99.6%; Sylvia J. Wenceslao, Carlos Delfin C. Wenceslao, Edwin Michael C. Wenceslao, Paolo Vincent C. Wenceslao and Delfin Angelo C. Wenceslao – each 0.1%; and Efren Carag – 0.0%.*

b. Security Ownership of Management as of December 31, 2018:

| Title of Class | Name of beneficial owner | Amount and nature of beneficial ownership Direct(D) Indirect (I) | Citizenship | % of total outstanding Shares |
|---|---|---|---|---|
| **Directors** | | | | |
| Common ......... | Delfin J. Wenceslao, Jr. | 2,705,749,130 (D&I) | Filipino | 79.68% |
| Common ......... | Sylvia C. Wenceslao | 1,938,724 (D&I) | Filipino | 0.06% |
| Common ......... | Carlos Delfin C. Wenceslao | 1,924,482 (D&I) | Filipino | 0.06% |
| Common ......... | Delfin Angelo C. Wenceslao | `1,924,482 (D&I) | Filipino | 0.06% |
| Common ......... | Edwin Michael C. Wenceslao | 1,924,482 (D&I) | Filipino | 0.06% |
| Common ......... | Paolo Vincent C. Wenceslao | 1,924,482 (D&I) | Filipino | 0.06% |
| Common ......... | Alberto E. Pascual | 158 (D) | Filipino | 0.00% |
| Common ......... | Alberto Victor P. Fenix, Jr. | 100 (D) | Filipino | 0.00% |
| **CEO and Most Highly Compensated Executive Officers** | | | | |
| Common ......... | Carlos Delfin C. Wenceslao | 1,924,482 (D&I) | Filipino | 0.06% |
| Common ......... | Delfin Angelo C. Wenceslao | 1,924,482 (D&I) | Filipino | 0.06% |
| Common ......... | Edwin Michael C. Wenceslao | 1,924,482 (D&I) | Filipino | 0.06% |
| Common ......... | Paolo Vincent C. Wenceslao | 1,924,482 (D&I) | Filipino | 0.06% |
| Common ......... | Heherson M. Asiddao | 50,100 (D) | Filipino | 0.00% |

Except as disclosed above, none of our other executive officers own shares directly or indirectly in our Company. Ownership in our Company is limited to that indicated in the foregoing.

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

We have no knowledge of any person holding more than 5% of shares under a voting trust or similar agreement.

**Recent Issuances of Securities Constituting Exempt Transactions by our Company**

Not applicable.

**Change in Control**

As of December 31, 2018, we do not know of any arrangements that may result in a change in control of the Company.

**Item 12. Certain Relationships and Related Transactions**

The Company and its subsidiaries, in their ordinary course of business, engage in transactions with its Ultimate Parent, associates, joint ventures and related parties under common ownership and management. In the normal course of business, the Group grants unsecured and noninterest-bearing cash advances to related parties for working capital requirements and other purposes. Certain advances to related parties are secured by an undertaking of another related party to pay in case of default. Outstanding balances with related parties are unsecured, non-interest bearing, have no fixed repayment and settlement terms, except for the due to Ultimate Parent Company that is payable beyond 12 months.

| Related Parties | Nature of Transaction |
|---|---|
| WHI ............................................................... | We have and may continue to acquire land in Aseana City from our majority shareholder, WHI. As of December 31, 2018, we had outstanding purchase payments to WHI amounting to ₱4,866.4 million, which are represented as trade and other payables in our consolidated financial statements.<br><br>We have executed an assumption of liability agreement with WHI in relation to our funding of start-up and operational costs of a certain related party under common ownership and management amounting to ₱374.6 million. |

| Related Parties | Nature of Transaction |
|---|---|
| European Resources and Technology, Inc.<br>Bay Resources and Development Corporation<br>Alphaland Bay City Corp.<br>Wendel Vega Marine Carrier<br>Wendel Ground Improvement, Inc.<br>10k South Concrete Mix Specialist<br>Bay Security Services<br>Wendel Osaka Realty Corp.<br>Aseana CL Beach and Marina Development Corp<br>Urban Argo Products Inc.<br>Aseana Powerstation Association, Inc. | We made unsecured noninterest-bearing cash advances in prior years to these related parties in connection with the funding of start-up and operational costs and working capital of these entities. These entities were strategically established to complement the overall development of Aseana City and our businesses:<br>• Our associate, European Resources and Technology, Inc. provides proper waste management to local and government units.<br>• Our joint venture, Bay Resources and Development Corporation was established to acquire, develop and market real estate properties.<br>• All of the remaining four related parties under common ownership and management provide construction materials such as wall panels and cement.<br>As of December 31, 2018, total advances to these related parties amounted in the aggregate to ₱358.0 million. |
| ABPEA............................................................<br>Aseana Power Station Association, Inc. | As a member of ABPEA and Aseana Power Station Association, Inc., we incur association dues. As of December 31, 2018, association dues payable to these entities amounted to ₱27.0 million. |
| Delfin J. Wenceslao Jr. | In 2017, the Group purchased parcels of land from a certain stockholder amounting to P67.0 million. There were no outstanding liabilities related to this transaction as of December 31, 2018 as the related liability was offset against the advances granted to such related party in the same period. There was no similar transaction in 2018. |
| Key Management Personnel ....................... | We paid short-term benefits, including salaries and allowances, bonuses and other employment benefits to certain key management personnel, which amounted to ₱53.5 million for the year ended December 31, 2018. |

For further information on the Company's related party transactions, including detailed breakdowns of amounts receivable from and amounts payable to affiliated companies, see Note

25 to the Company's financial statements as of and for the calendar year ended December 31, 2018.

## PART IV – CORPORATE GOVERNANCE

### Item 13. Corporate Governance

We adopted the Manual to ensure our compliance with the leading practices on good corporate governance and related Philippine SEC rules and regulations. The Manual was approved and adopted by the Board on May 20, 2015 and made effective from August 1, 2015.

The Manual features the following provisions:

- Protection of investors. The Manual provides for shareholders' rights and protection, investor relations, dividend policy and a disclosure system to ensure transparency and accountability.
- Board of directors and management. The detailed qualifications and disqualifications, duties, functions and responsibilities of the Board and executive officers are also enumerated in the Manual.
- Checks and balances. The Manual contains the vision, strategic objectives, key policies, procedures for the management of our Company, and mechanisms for monitoring and evaluating management's performance.
- Compliance with the Manual. The appointment of a Compliance Officer to monitor compliance with and violations of the Manual is also provided.
- Creation of committees. The Manual mandates the creation of the Executive Committee, the Audit and Risk Committee, and the Compensation and Remuneration Committee to ensure the performance of certain important functions of the Board and management.

**Executive Committee**

Our Executive Committee acts on specific matters within the competence of the Board as may from time to time be delegated to the executive Committee under our Company's By-Laws, except with respect to: 1) the approval of any action for which shareholders' approval is also required; 2) the filling of vacancies on the Board or the Executive Committee; 3) the amendment or repeal of By-Laws or the adoption of new By-laws; 4) the amendment or repeal of any resolution of the Board of Directors that cannot be amended or repealed based on the terms of the resolution; 5) the distribution of cash dividends; and 6) the exercise of powers delegated by the Board exclusively to other committees, if any.

**Audit and Risk Committee**

Our Audit and Risk committee is responsible for assisting the Board in its fiduciary responsibilities by providing an independent and objective assurance to its management and shareholders of the continuous improvement of its risk management systems, business operations, control and governance processes. The committee assists the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process and monitoring of compliance with laws, rules and regulations, oversight over the external auditors, the nature, scope and expenses of the audit, and evaluation and determination of any non-audit work and review of the non-audit fees paid to the external auditors.

**Compensation and Remuneration Committee**
Our Compensation and Remuneration Committee is responsible for objectively recommending a formal and transparent framework of remuneration and evaluation for the members of the Board and our key executives to enable them to run our Group successfully.

**Nomination and Election Committee**
Our Nomination and Election Committee is responsible for providing our shareholders with an independent and objective evaluation and assurance that the members of the Board are competent and will foster long-term success and competitiveness. The nomination and election procedures of independent Directors are in accordance with Securities Regulation Code of the Philippines Rule 38 and related regulations.

## PART V - EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

A. Exhibits – see accompanying Index to Exhibits

   The following exhibit is incorporated by reference in this report:
   2018 Consolidated Audited Financial Statements

B. Reports on SEC Form 17-C

   The following is a list of corporate disclosures filed under SEC Form 17-C for the period from July 1, 2018 to December 31, 2018:

| Date of Disclosure | Subject Matter |
|---|---|
| July 4, 2018 | Press release "D.M. Wenceslao & Associates, Incorporated Successfully Completes P8.1 billion Initial Public Offering" |
| July 16, 2018 | Stabilization Activity Report |
| July 25, 2018 | Stabilization Activity Report |
| July 25, 2018 | Results of the Regular Meeting of the Board of Directors |
| July 26, 2018 | Notice of Analysts' Briefing |
| July 31, 2018 | Press release "DMW net income rises 42% to P970 million in 1H of 2018" |
| September 27, 2018 | Press release "Aseana Three Secures PEZA Accreditation" |
| November 6, 2018 | Notice of Analyst Briefing |
| November 8, 2018 | Press release "MidPark Towers Receives License to Sell" |
| November 13, 2018 | Press release "D.M. Wenceslao & Associates, Incorporated On Track to Surpass 2017 Net Income" |
| November 20, 2018 | Press release "MidPark Towers Launch Sales Exceed P1.2 Billion |
| November 23, 2018 | Results of the special board meeting of the Board of Directors |
| December 1, 2018 | Increase of capital stock of Aseana Holdings, Inc. a wholly owned subsidiary of the Company |

## INDEX TO EXHIBITS
**Form 17-A**

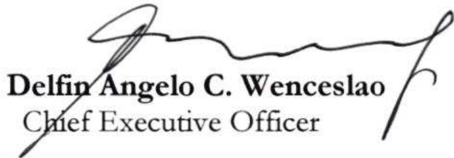

| No. | | Page No. |
|---|---|---|
| **(3)** | Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession | * |
| **(5)** | Instruments Defining the Rights of Security Holders, Including Indentures | * |
| **(8)** | Voting Trust Agreement | * |
| **(9)** | Material Contracts | * |
| **(10)** | Annual Report to Security Holders, Form 11-Q or Quarterly Report to Security Holders | * |
| **(13)** | Letter re Change in Certifying Accountant | * |
| **(16)** | Report Furnished to Security Holders | * |
| **(18)** | Subsidiaries of the Registrant<br><br>*(Please refer to Note 2 of the attached 2018 consolidated financial statements for details)* | |
| **(19)** | Published Report Regarding Matters Submitted to Vote of Security Holders | * |
| **(20)** | Consent of Experts and Independent Counsel | * |
| **(21)** | Power of Attorney | * |
| **(22)** | Additional Exhibits | * |


* These Exhibits are either not applicable to the Company or require no answer.

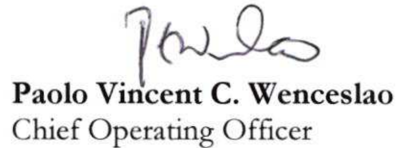
## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of PARAÑAQUE CITY on APR 15 2019, 20__.

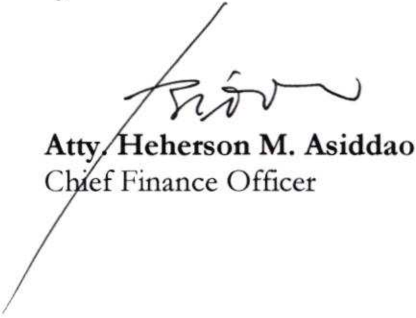
By:



**Delfin Angelo C. Wenceslao**
Chief Executive Officer



**Paolo Vincent C. Wenceslao**
Chief Operating Officer

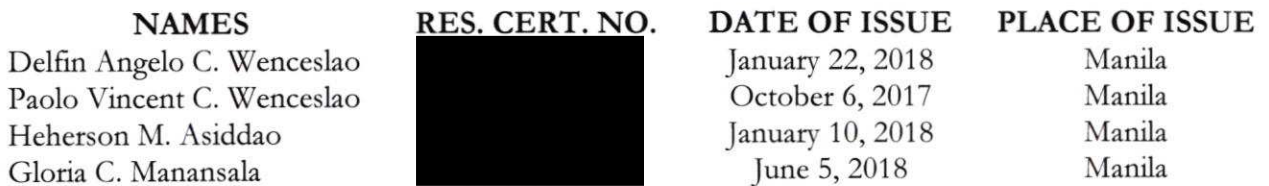


**Atty. Heherson M. Asiddao**
Chief Finance Officer

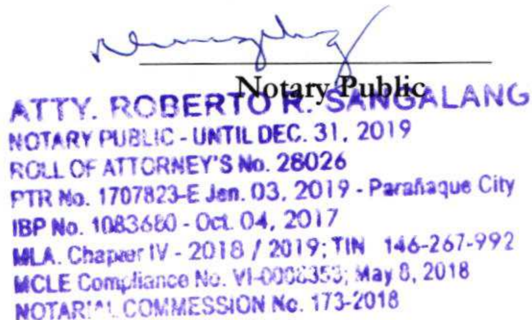
**Gloria C. Manansala**
Controller/Accounting Officer

**Atty. Paul Mar M. Quinto**
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this APR 15 2019 day of ________ 20__ affiant(s) exhibiting to me his/their Residence Certificates, as follows:



| NAMES | RES. CERT. NO. | DATE OF ISSUE | PLACE OF ISSUE |
|---|---|---|---|
| Delfin Angelo C. Wenceslao | | January 22, 2018 | Manila |
| Paolo Vincent C. Wenceslao | | October 6, 2017 | Manila |
| Heherson M. Asiddao | | January 10, 2018 | Manila |
| Gloria C. Manansala | | June 5, 2018 | Manila |




Notary Public

DOC. No. 565
PAGE No. 113
BOOK No. IV
SERIES OF 2019

# D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES

## INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

### FORM 14-A, ITEM 7


| Schedule | Content | Page |
|---|---|---|
| **Consolidated Financial Statements** | | |
| | Statement of Management's Responsibility for Financial Statements | 50 |
| | Certificate on the Compilation Services for the Preparation of the Financial Statements and Notes to Financial Statements | 52 |
| | Report of Independent Public Accountants | 53 |
| | Consolidated Balance Sheets as of December 31, 2018, 2017, and 2016 | 61 |
| | Consolidated Statements of Income for the Years Ended December 31, 2018, 2017, and 2016 | 63 |
| | Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017, and 2016 | 64 |
| | Consolidated Statements of Changes in Equity for the Years Ended December 31, 2018, 2017, and 2016 | 65 |
| | Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017, and 2016 | 66 |
| | Notes to Consolidated Financial Statements | 67 |
| **Supplementary Schedules** | | |
| | Report of Independent Public Accountants on Supplementary Schedules | 180 |
| | **Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68** | |
| A | Financial Assets | 181 |
| B | Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties) | 182 |
| C | Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements | 183 |
| D | Intangible/ Other Assets | 184 |
| E | Long-term Debt | 185 |
| F | Indebtedness to Related Parties | 186 |
| G | Guarantees of Securities of Other Issuers | 187 |
| H | Capital Stock | 188 |
| **Others Required Information** | | |
| | Schedule of Relevant Financial Ratios | 189 |
| | Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2018 | 190 |
| | Reconciliation of Retained Earnings Available for Dividend Declaration* | 194 |
| | Map Showing the Relationship Between and Among the Company and its Related Entities | 195 |

D.M.WENCESLAO & ASSOCIATES, INC.
GENERAL CONTRACTORS

3rd Floor, Aseana Power Station Bldg.
Aseana Business Park
Pres. Diosdado Macapagal Blvd. corner
Bradco Avenue, Baclaran, Parañaque City
TEL.: (632) 854-5711 FAX: (632) 853-2590

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **D.M. Wenceslao & Associates, Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2018, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

*Delfin J. Wenceslao, Jr.*
Chairman

*Delfin Angelo C. Wenceslao*
Chief Executive Officer

*Atty. Heherson M. Asiddao*
Chief Financial Officer

Signed this 15th day of February 2019

• CONSTRUCTION • SUPERVISION AND MANAGEMENT • PLANNING AND DESIGN • DEVELOPMENT •

ISO 9001:2015 CERTIFIED

MEMBER

Management Service

Cert. No. TÜV 100 05 1867

Accreditation by the Joint Accreditation System Of Australia and New Zealand. URL www.jas-anz.org/register

3rd Floor, Aseana Power Station Bldg.
Aseana Business Park
Pres. Diosdado Macapagal Blvd. corner
Bradco Avenue, Baclaran, Parañaque City
TEL.: (632) 854-5711 FAX : (632) 853-2590

SUBSCRIBED AND SWORN to before me this MAR 04 2019 day of ______ 2019 at PARAÑAQUE CITY, Philippines, affiants exhibiting to me their respective Passports, to wit:

| Name | Passport No. | Date & Place of Issue |
|---|---|---|
| Delfin J. Wenceslao Jr. | [redacted] | July 11, 2017 |
| Delfin Angelo C. Wenceslao | [redacted] | January 22, 2018 |
| Atty. Heherson M. Asiddao | [redacted] | Janyary 10, 2018 |

Doc. No. 94
Page No. 19
Book No. III
Series of 2019

ATTY. ROBERTO R. SANGALANG
NOTARY PUBLIC - UNTIL DEC. 31, 2019
ROLL OF ATTORNEY'S No. 28026
PTR No. 1707823-E Jan. 03, 2019 - Parañaque City
IBP No. 1083680 - Oct. 04, 2017
MLA. Chapter IV - 2018 / 2019; TIN 146-267-992
MCLE Compliance No. VI-[illegible]; May 8, 2018
NOTARIAL COMMISSION No. 173-2018

D.M.WENCESLAO & ASSOCIATES, INC.
GENERAL CONTRACTORS

3rd Floor, Aseana Power Station Bldg.
Aseana Business Park
Pres. Diosdado Macapagal Blvd. corner
Bradco Avenue, Baclaran, Parañaque City
TEL.: (632) 854-5711 FAX: (632) 853-2590

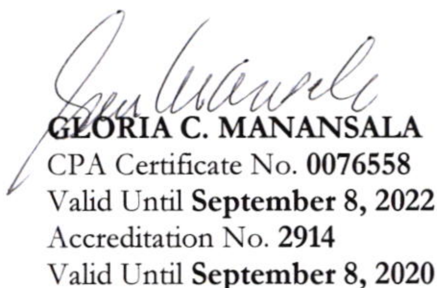
# CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity accordance with Philippine Financial Reporting Standards (PFRS), PFRS for SMEs, or other applicable reporting framework and reports as required by accounting and auditing standards for **D.M. Wenceslao & Associates, Inc.** for the period ended December 31, 2018.

In discharging this responsibility, I hereby declare that I am the Group Controller of the **D.M. Wenceslao & Associates, Inc.**

Furthermore, in my compilation services for the preparation of the financial statements and notes to the financial statements, I was not assisted by or did not avail of the services of **Mr. Romualdo V. Murcia III** which is the external auditor who rendered the audit opinion for the said financial statements and notes to the financial statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.



**GLORIA C. MANANSALA**
CPA Certificate No. **0076558**
Valid Until **September 8, 2022**
Accreditation No. **2914**
Valid Until **September 8, 2020**

Signed this 15th day of February, 2019.

MAR 20 2019
SUBSCRIBE AND SWORN TO BEFORE ME
NOTARY PUBLIC FOR AD IN CITY
OF PARAÑAQUE CITY PHIL.

NOTARY PUBLIC

Doc. No. 3706
Page No. 502
Book No. 007
Series of 2019

MA. CECILIA V. LOPEZ
NOTARY PUBLIC
VALID UNTIL DEC. 31, 20..
PTR NO. 1707678 01-03-19 PQUE. CITY
IBP NO. 069327 01-03-19
ROLL NO. 36656
MCLE NO. 0009598

**D.M. WENCESLAO**
AND ASSOCIATES, INCORPORATED

**2018**

**D.M Wenceslao & Associates, Incorporated and Subsidiaries**
**Consolidated Financial Statements**
**December 31, 2018, 2017 and 2016**

P&A
Grant Thornton
An instinct for growth™

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

T +63 2 988 2288

# Report of Independent Auditors

**The Board of Directors and Stockholders**
**D.M. Wenceslao & Associates, Incorporated and Subsidiaries**
***(A Subsidiary of Wendel Holdings Co., Inc.)***
3rd Floor Aseana Powerstation Building
Pres. Macapagal Avenue
Aseana Business Park, Parañaque City

### *Opinion*

We have audited the consolidated financial statements of D.M. Wenceslao & Associates, Incorporated and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit of the consolidated financial statements of the Group are the following:

***(a) Revenue Recognition for Rental of Investment Properties***

*Description of the Matter*

In 2018, the Group recognized revenue from rentals of investment properties, including land and buildings, amounting to P1,727.4 million, which represents 80% of the Group's total revenue. This includes P716.8 million rental income on long-term leases which were recognized on a straight-line basis over the term of the relevant lease agreements as disclosed in Note 2 to the consolidated financial statements.

We identified the revenue from rentals as significant to our audit due to the materiality of the amount and the higher risk involved in the manner the Group recognizes rental income based on the provisions and terms of the lease agreements and the requirements of the applicable accounting standard, Philippine Accounting Standard (PAS) 17, *Leases*. An error in the Group's understanding of the significant terms and conditions of the lease agreements and accounting treatment may result in overstatement or understatement of the reported revenues and the related receivables recognized therefrom.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to recognition of revenue from rentals included the following:

- inspecting, on a sample basis, the lease agreements entered into with the Group's tenants, and understanding the significant terms and conditions affecting the recognition of rental income;
- determining, based on the significant terms and conditions of the lease agreements, whether the recognition of rental income is in compliance with the revenue recognition requirements of PAS 17;
- recomputing, on a sample basis, the amounts of rental income and the related receivables taking into consideration, among others, the lease payments, lease terms (including rent-free periods), periodic rent escalations, and effect of any modifications; and,
- testing, on a sample basis, whether rental income related to existing lease agreements have been recognized in the proper accounting period.

***(b) Revenue Recognition on Sale of Condominium Units***

*Description of the Matter*

In 2018, the Group recognized revenue from sale of condominium units amounting to P119.4 million. As disclosed in Notes 2 and 3 to the consolidated financial statements, the Group recognizes revenue from sale of condominium units over time proportionate to the progress of the project development. The Group uses the input method in determining the percentage-of-completion after satisfying the gating criteria of PFRS 15, *Revenue from Contracts with Customers*, including establishing that collection of the total contract price is reasonably assured. The Group recognizes a contract asset when it has rights to consideration as it develops the property and a contract liability when it receives consideration in excess of the amount for which the Group is entitled for the development of the property.

We identified the revenue recognition on sale of condominium units as significant to our audit as it requires significant management judgment in assessing the collectability of the contract price, and estimating the stage of completion of the development project. An error in application of judgment and estimate could cause a material misstatement in the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to revenue recognition on sale of condominium units included, among others, the following:

- evaluating appropriateness of the Group's revenue recognition policy and design and operating effectiveness of processes and controls related to the recognition of revenues from sale of condominium units;
- determining, among others, whether the parties to the contract have approved the contract in writing; each party's rights regarding the condominium units and progress of development thereof can be identified; the payment terms can be identified; the risk, timing or amount of the future cash flows is expected to change as a result of the contract has been identified; and, the collection of the consideration is probable;
- evaluating the reasonableness of the percentage-of-completion by analyzing the costs incurred to date as a proportion of the total estimated and budgeted costs;
- testing, on a sample basis, actual costs incurred through direct examination of relevant supporting documents;
- assessing the reasonableness of estimated contract costs with reference to contractors' and suppliers' quotes and historical costs of similar and recently completed projects, taking into consideration the effect of variation to the original contract terms;
- recomputing the revenues and costs recognized for the year based on the percentage-of-completion and tracing the revenues and costs recognized to the accounting records; and,
- evaluating appropriateness of the Group's application of PFRS 15 on its real estate transactions, including the review of the restatement analysis and adjustments made by the Group in its 2017 and 2016 consolidated financial statements.

***(c) Recognition of Other Income Arising from the Consideration Agreement, and Classification of Investment in Joint Venture Held for Termination***

*Description of the Matter*

In 2018, the Group entered into a Consideration Agreement with several counterparties as disclosed in Note 13 to the consolidated financial statements. The Consideration Agreement is pursuant to a related Settlement Agreement whereby the parties involved thereto have agreed to terminate, rescind or otherwise cancel a joint venture agreement subject to fulfilment of certain conditions. Relative to this, the Group recognized other income amounting to P1,200.0 million representing the non-refundable and collected portion of the total contract consideration of P2,050.0 million from the Consideration Agreement as also disclosed in Note 13 to the consolidated financial statements. Such other income accounted for 62% of the Group's 2018 consolidated net profit. Also in relation to the Settlement Agreement, the Group reclassified the applicable portion of its investment in joint venture amounting to P127.1 million to Investment in Joint Venture Held for Termination account as disclosed in Notes 2 and 13 to the consolidated financial statements.

We identified the revenue recognition of income arising from the Consideration Agreement as significant to our audit due to the materiality of the amount involved and the involvement of significant management judgment to determine appropriate accounting treatment based on the related facts and circumstances, including contractual terms of the agreement. We also identified the classification of the investment in joint venture as Investment in Joint Venture Held for Termination account in the 2018 consolidated statement of financial position to be significant to our audit due to the related management judgment involved to classify such asset in accordance with PFRS 5, *Non-current Asset Held for Sale and Discontinued Operations*. An error in application of judgment could cause a material misstatement in the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the recognition of income as a result of the Consideration Agreement and the classification of the applicable investment in joint venture under PFRS 5, among others, are the following:

- obtaining an understanding of the significant terms and condition of the Consideration and Settlement Agreements, and the relevant facts and circumstances about the transaction in order to determine their accounting implications;

- evaluating appropriateness of management judgment applied and basis of assessment relative to the recognition of income from the Consideration Agreement in accordance with PFRS 15 and the reclassification of investment in joint venture in accordance with PFRS 5; and,

- testing reasonableness of income recognized and measurement of investment in joint venture held for termination and assessing sufficiency and appropriateness of disclosures in the Group's notes to consolidated financial statements.

***(d) Determination of Net Realizable of Real Estate Inventories***

*Description of the Matter*

As of December 31, 2018, the Group's real estate inventories include land and land development costs and property development costs with carrying values of P2,162.2 million and P711.4 million, respectively, as disclosed in Notes 11 and 10, respectively, to the consolidated financial statements. The real estate inventories include raw land inventory and property development costs related to the residential and condominium projects under development. The Group measures its real estate inventories at lower of cost and net realizable values.

We identified the assessment of net realizable values of the Group's land and land development costs and property development costs as a key audit matter because of the uncertainties involved in estimating the costs to complete the property development and the future selling prices of the properties when completed.

*How the Matter was Addressed in the Audit*

Our procedures related to the determination of net realizable values of land and land development costs and property development costs included the following:

- understanding the Group's process and internal control over the preparation, monitoring, and management of construction and development budget for its real estate inventories, as well as in making accounting estimates; and determining whether there has been or ought to have been a change from the prior period in the method, judgment and assumptions used by the Group in estimating net realizable values;

- conducting site visits and inspection of land and on-going property development and discussing with the Group's project engineers the progress of development and comparing the observed progress with the latest construction and development budget provided by management;

- evaluating the methodology used by the Group in determining the net realizable values and assessing the appropriateness of the assumptions and inputs used, which included the expected future average selling prices of real estate inventories and the components of management's budgeted construction and development costs; and,

- re-performing the calculations made by the Group in arriving at the assessment of net realizable values and comparing the estimated costs to complete the property development with the Group's updated construction and development budget.

***(e) Adoption of an Expected Credit Loss Model and Recoverability of Trade Receivables and Contract Asset***

*Description of the Matter*

As at December 31, 2018, the carrying amount of the Group's trade receivables from construction and leasing operations (net of allowance for impairment), and contract asset amounted to P3,849.7 million and P166.7 million, respectively. These financial assets totaling to P4,016.4 million which are disclosed in Notes 9 and 10 to the consolidated financial statements represent 13% of the total assets of the Group as at the end of the reporting period. The Group's management exercises significant judgment and makes estimates in determining when the trade receivables and contract asset are impaired and how much impairment losses need to be recognized in accordance with the expected credit loss (ECL) model under PFRS 9, *Financial Instruments*. The Group's significant accounting policies, management judgment and estimates, which are described in Notes 2, 3 and 5 to the consolidated financial statements, include the application of the ECL model based on the lifetime expected credit loss wherein the Group uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The key elements used in the calculation of the ECL include the probability of default, loss given default and exposure at default.

Because of the complexity of the requirement of PFRS 9 in determining ECL and the uncertainties involved in management's use of judgment and estimates, we identified the adoption of ECL model and recoverability of the Group's trade receivables and contract asset discussed above as a key audit matter.

*How the Matter was Addressed in the Audit*

Our audit procedures to determine the appropriateness of the ECL model adopted by the Group, and the recoverability of trade receivables and contract asset, and the adequacy of the related allowance for credit losses on these assets included, among others, the following:

- evaluating appropriateness of the Group's ECL model based on the requirements of the standard and the related policies and procedures of the Group;

- identifying any customers, on a sample basis, with financial difficulty and/or breach of contract resulting in default on payments through discussion with management, inspecting their payment history, and performing an independent evaluation of their ability to pay;

- evaluating the appropriateness and reasonableness of underlying assumptions, including forward-looking information and the sufficiency, reliability and relevance of the data used by the Group.

- determining the related estimated recoverable value of real estate assets that can be recovered by the Group in settlement of the selected past due or delinquent customer's accounts;

- checking the mathematical accuracy of the provision matrix applicable to the ECL model, including testing of aging of trade receivables and contract asset; and,

- evaluating appropriateness of the Group's application of PFRS 9 on its financial assets, including the review of the restatement analysis and adjustments made by the Group in its 2017 and 2016 consolidated financial statements.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

P&A
Grant Thornton
An instinct for growth™



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

The engagement partner on the audits resulting in this independent auditors' report is Romualdo V. Murcia III.

**PUNONGBAYAN & ARAULLO**

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 7333697, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 15, 2019

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
***(A Subsidiary of Wendel Holdings Co., Inc.)***
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2018 AND 2017**
***(With Corresponding Figures as of January 1, 2017)***
***(Amounts in Philippine Pesos)***

| | Notes | **December 31, 2018** | December 31, 2017 (As Restated – see Note 27) | January 1, 2017 (As Restated – see Note 27) |
|---|---|---|---|---|
| **A S S E T S** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 8 | **P 7,549,219,648** | P 1,444,538,812 | P 819,515,765 |
| Receivables - net | 9 | **2,322,517,894** | 2,223,872,396 | 1,904,770,826 |
| Contract asset | 10 | **166,652,337** | 47,301,272 | 684,636 |
| Land and land development costs | 11 | **2,162,209,345** | 1,954,437,686 | 2,008,680,490 |
| Property development costs | 10 | **711,411,174** | 595,108,501 | 24,333,237 |
| Other current assets | 12 | **1,854,411,290** | 551,995,796 | 264,948,607 |
| Total Current Assets | | **14,766,421,688** | 6,817,254,463 | 5,022,933,561 |
| **NON-CURRENT ASSETS** | | | | |
| Receivables | 9 | **2,488,826,277** | 1,809,690,204 | 1,754,944,365 |
| Investments in associates and joint vetures | 13 | **55,834,465** | 176,589,540 | 177,582,517 |
| Property and equipment - net | 14 | **130,657,585** | 143,938,556 | 166,801,601 |
| Investment properties - net | 15 | **11,448,382,530** | 11,108,687,851 | 10,484,271,390 |
| Deferred tax assets - net | 24 | **47,941,716** | 22,357,274 | - |
| Other non-current assets | 16 | **723,588,366** | 295,318,011 | 379,425,769 |
| Total Non-current Assets | | **14,895,230,939** | 13,556,581,436 | 12,963,025,642 |
| **INVESTMENT IN JOINT VENTURE HELD FOR TERMINATION** | 13 | **127,062,953** | - | - |
| **TOTAL ASSETS** | | **P 29,788,715,580** | P 20,373,835,899 | P 17,985,959,203 |

| | Notes | December 31, 2018 | December 31, 2017 (As Restated – see Note 27) | January 1, 2017 (As Restated – see Note 27) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Loans and borrowings | 17 | **P 1,417,170,000** | P 1,656,593,434 | P 2,148,561,483 |
| Trade and other payables | 18 | **1,125,151,170** | 1,113,858,443 | 524,531,846 |
| Contract liability | 10 | **210,459,821** | 124,328,053 | 6,154,956 |
| Advances from a co-joint venturer | 13 | **1,000,000,000** | 1,000,000,000 | 1,000,000,000 |
| Advances from and due to related parties | 25 | **4,611,174,814** | 4,656,057,252 | 4,663,798,609 |
| Deposits and advances | 19 | **793,551,597** | 540,369,472 | 314,666,993 |
| Total Current Liabilities | | **9,157,507,402** | 9,091,206,654 | 8,657,713,887 |
| **NON-CURRENT LIABILITIES** | | | | |
| Loans and borrowings | 17 | **511,750,000** | 820,309,511 | 514,847,791 |
| Deposits and advances | 19 | **504,858,972** | 581,504,575 | 710,661,465 |
| Deferred tax liabilities - net | 24 | **720,976,913** | 496,168,039 | 276,675,531 |
| Retirement benefit obligation | 23 | **27,643,914** | 65,698,627 | 75,018,446 |
| Total Non-current Liabilities | | **1,765,229,799** | 1,963,680,752 | 1,577,203,233 |
| Total Liabilities | | **10,922,737,201** | 11,054,887,406 | 10,234,917,120 |
| **EQUITY** | | | | |
| Equity attributable to owners of the parent company | | | | |
| Capital stock | 27 | **3,395,864,100** | 2,716,691,200 | 1,716,691,200 |
| Additional paid-in capital | 27 | **6,964,649,807** | - | - |
| Revaluation reserves - net | 27 | **( 28,524,335 )** | ( 10,935,176 ) | ( 21,052,954 ) |
| Other reserves | 2, 27 | **( 275,974,845 )** | ( 275,974,845 ) | ( 275,974,845 ) |
| Retained earnings | 27 | **8,141,450,177** | 6,230,204,687 | 5,671,742,090 |
| Total equity attributable to owners of the parent company | | **18,197,464,904** | 8,659,985,866 | 7,091,405,491 |
| Noncontrolling interest | 2 | **668,513,475** | 658,962,627 | 659,636,592 |
| Total Equity | | **18,865,978,379** | 9,318,948,493 | 7,751,042,083 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 29,788,715,580** | P 20,373,835,899 | P 17,985,959,203 |

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

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
***(A Subsidiary of Wendel Holdings Co., Inc.)***
**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**
***(Amounts in Philippine Pesos)***

| | Notes | 2018 | 2017 (As Restated – see Note 27) | 2016 (As Restated – see Note 27) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Rentals: | | | | |
| Land | 4, 15, 25, 28 | **P 965,248,664** | P 919,417,814 | P 860,514,881 |
| Building | 4, 15, 25, 28 | **762,108,933** | 429,701,872 | 344,601,606 |
| Other revenues | 2 | **173,841,016** | 91,687,180 | 65,930,007 |
| | | **1,901,198,613** | 1,440,806,866 | 1,271,046,494 |
| Construction contracts | 2 | **130,524,057** | 202,132,945 | 231,163,640 |
| Sale of condominium units | 2 | **119,351,066** | 47,116,581 | 684,636 |
| Land sales | 2 | **1,252,800** | 1,088,290,000 | 600,656,000 |
| | | **2,152,326,536** | 2,778,346,392 | 2,103,550,770 |
| **COSTS OF SERVICES AND SALES** | 22 | | | |
| Rentals | 20 | **212,361,243** | 135,749,456 | 130,086,877 |
| Sale of condominium units | 2, 10, 20 | **72,875,718** | 30,332,254 | 445,474 |
| Construction contracts | 20 | **61,508,781** | 132,234,603 | 201,953,484 |
| Land sales | 11 | **40,078** | 141,520,283 | 120,375,150 |
| | | **346,785,820** | 439,836,596 | 452,860,985 |
| **GROSS PROFIT** | | **1,805,540,716** | 2,338,509,796 | 1,650,689,785 |
| **OTHER OPERATING INCOME (EXPENSES)** | | | | |
| General and administrative | 22 | **( 477,827,022 )** | ( 412,273,915 ) | ( 273,796,546 ) |
| Selling | 22 | **( 64,902,124 )** | ( 61,304,238 ) | ( 21,199,406 ) |
| Other operating income | 21 | **109,524,290** | 293,514,031 | 368,359,464 |
| | | **( 433,204,856 )** | ( 180,064,122 ) | 73,363,512 |
| **OPERATING PROFIT** | | **1,372,335,860** | 2,158,445,674 | 1,724,053,297 |
| **OTHER INCOME (CHARGES)** | | | | |
| Finance costs | 17, 21, 23 | **( 69,851,542 )** | ( 72,107,089 ) | ( 83,790,875 ) |
| Finance income | 8, 21 | **69,523,005** | 7,163,743 | 3,960,548 |
| Share in net earnings (losses) of associates and joint ventures | 13 | **6,307,878** | ( 992,977 ) | ( 5,297,857 ) |
| Other income | 4, 13, 21 | **1,200,000,000** | - | 7,110,127 |
| | | **1,205,979,341** | ( 65,936,323 ) | ( 78,018,057 ) |
| **PROFIT BEFORE TAX** | | **2,578,315,201** | 2,092,509,351 | 1,646,035,240 |
| **TAX EXPENSE** | 24 | **657,518,863** | 534,720,719 | 437,029,124 |
| **NET PROFIT** | | **P 1,920,796,338** | P 1,557,788,632 | P 1,209,006,116 |
| Net profit attributable to: | | | | |
| Equity holders of the parent company | | **P 1,911,245,490** | P 1,558,462,597 | P 1,206,692,949 |
| Noncontrolling interest | | **9,550,848** | ( 673,965 ) | 2,313,167 |
| | | **P 1,920,796,338** | P 1,557,788,632 | P 1,209,006,116 |
| **Earnings Per Share - Basic and Diluted** | 26 | **P 0.625** | P 0.574 | P 0.703 |

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

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
***(A Subsidiary of Wendel Holdings Co., Inc.)***
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**
***(Amounts in Philippine Pesos)***

| | Notes | 2018 | 2017 (As Restated – see Note 27) | 2016 (As Restated – see Note 27) |
|---|---|---|---|---|
| **NET PROFIT** | | **P 1,920,796,338** | P 1,557,788,632 | P 1,209,006,116 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | |
| Remeasurements of post-employment defined benefit plan | 23 | **( 25,441,148 )** | 14,339,519 | ( 23,902,041 ) |
| Tax income (expense) | 24 | **7,632,344** | ( 4,301,856 ) | 7,170,612 |
| | | **( 17,808,804 )** | 10,037,663 | ( 16,731,429 ) |
| Fair valuation of financial assets at fair value through other comprehensive income | 16, 27 | **219,645** | 80,115 | ( 80,695 ) |
| **Other Comprehensive Income (Loss) – Net of Tax** | 27 | **( 17,589,159 )** | 10,117,778 | ( 16,812,124 ) |
| **TOTAL COMPREHENSIVE INCOME** | | **P 1,903,207,179** | P 1,567,906,410 | P 1,192,193,992 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the parent company | | **P 1,893,656,331** | P 1,568,580,375 | P 1,189,880,825 |
| Noncontrolling interest | | **9,550,848** | ( 673,965 ) | 2,313,167 |
| | | **P 1,903,207,179** | P 1,567,906,410 | P 1,192,193,992 |

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

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**

***(A Subsidiary of Wendel Holdings Co., Inc.)***

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

***(Amounts in Philippine Pesos)***

| | | Attributable to Owners of the Parent Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Retained Earnings | | | | |
| | Notes | Capital Stock | Additional Paid-in Capital | Revaluation Reserves - Net | Other Reserves | Unappropriated | Appropriated | Total | Noncontrolling Interest | Total Equity |
| Balance at January 1, 2018 | | | | | | | | | | |
| As previously reported | | P 2,716,691,200 | P - | ( P 10,935,176 ) | ( P 275,974,845 ) | P 5,968,150,683 | P 1,200,000,000 | P 9,597,931,862 | P 658,962,627 | P 10,256,894,489 |
| Effects of restatements | 2, 27 | - | - | - | - | ( 937,945,996 ) | - | ( 937,945,996 ) | - | ( 937,945,996 ) |
| As restated | | 2,716,691,200 | - | ( 10,935,176 ) | ( 275,974,845 ) | 5,030,204,687 | 1,200,000,000 | 8,659,985,866 | 658,962,627 | 9,318,948,493 |
| Issuances during the year | 27 | 679,172,900 | 6,964,649,807 | - | - | - | - | 7,643,822,707 | - | 7,643,822,707 |
| Total comprehensive income for the year | | - | - | ( 17,589,159 ) | - | 1,911,245,490 | - | 1,893,656,331 | 9,550,848 | 1,903,207,179 |
| **Balance at December 31, 2018** | 27 | **P 3,395,864,100** 0 | **P 6,964,649,807** | **( P 28,524,335 )** | **( P 275,974,845 )** | **P 6,941,450,177** | **P 1,200,000,000** | **P 18,197,464,904** | **P 668,513,475** | **P 18,865,978,379** |
| Balance at January 1, 2017 | | | | | | | | | | |
| As previously reported | | P 1,716,691,200 | P - | ( P 21,052,954 ) | ( P 275,974,845 ) | P 5,407,669,358 | P 1,200,000,000 | P 8,027,332,759 | P 659,636,592 | P 8,686,969,351 |
| Effects of restatements | 2, 27 | - | - | - | - | ( 935,927,268 ) | - | ( 935,927,268 ) | - | ( 935,927,268 ) |
| As restated | | 1,716,691,200 | - | ( 21,052,954 ) | ( 275,974,845 ) | 4,471,742,090 | 1,200,000,000 | 7,091,405,491 | 659,636,592 | 7,751,042,083 |
| Stock dividends declared | 27 | 1,000,000,000 | | - | - | ( 1,000,000,000 ) | - | - | - | - |
| Total comprehensive income for the year | | - | - | 10,117,778 | - | 1,558,462,597 | - | 1,568,580,375 | ( 673,965 ) | 1,567,906,410 |
| Balance at December 31, 2017 | 27 | P 2,716,691,200 | P - | ( P 10,935,176 ) | ( P 275,974,845 ) | P 5,030,204,687 | P 1,200,000,000 | P 8,659,985,866 | P 658,962,627 | P 9,318,948,493 |
| Balance at January 1, 2016 | | | | | | | | | | |
| As previously reported | | P 1,716,691,200 | P - | ( P 4,240,830 ) | ( P 275,974,845 ) | P 4,207,477,612 | P 1,200,000,000 | P 6,843,953,137 | P 657,323,425 | P 7,501,276,562 |
| Effects of restatements | 2, 27 | - | - | - | - | ( 942,428,471 ) | - | ( 942,428,471 ) | - | ( 942,428,471 ) |
| As restated | | 1,716,691,200 | - | ( 4,240,830 ) | ( 275,974,845 ) | 3,265,049,141 | 1,200,000,000 | 5,901,524,666 | 657,323,425 | 6,558,848,091 |
| Total comprehensive income for the year | | - | - | ( 16,812,124 ) | - | 1,206,692,949 | - | 1,189,880,825 | 2,313,167 | 1,192,193,992 |
| Balance at December 31, 2016 | 27 | P 1,716,691,200 | P - | ( P 21,052,954 ) | ( P 275,974,845 ) | P 4,471,742,090 | P 1,200,000,000 | P 7,091,405,491 | P 659,636,592 | P 7,751,042,083 |

*See Notes to Consolidated Financial Statements.*

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
***(A Subsidiary of Wendel Holdings Co., Inc.)***
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**
***(Amounts in Philippine Pesos)***

| | Notes | 2018 | 2017 (As Restated – see Note 27) | 2016 [As Restated – see Note 27) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | P 2,578,315,201 | P 2,092,509,351 | P 1,646,035,240 |
| Adjustments for: | | | | |
| Depreciation and amortization | 14, 15 | 149,215,759 | 110,657,533 | 100,326,674 |
| Finance costs | 21 | 69,851,542 | 72,107,089 | 83,790,875 |
| Interest income | 21 | ( 66,668,597 ) | ( 7,154,349 ) | ( 2,993,008 ) |
| Share in net losses (earnings) of associates and joint ventures | 13 | ( 6,307,878 ) | 992,977 | 5,297,857 |
| Unrealized foreign currency gains - net | | ( 2,854,408 ) | ( 9,394 ) | ( 967,540 ) |
| Gain on sale of investment properties | 15 | - | ( 257,686,063 ) | ( 312,453,208 ) |
| Gain on acquisition of a subsidiary | 21 | - | - | ( 7,110,127 ) |
| Operating profit before working capital changes | | 2,721,551,619 | 2,011,417,144 | 1,511,926,763 |
| Increase in receivables | | ( 724,886,883 ) | ( 454,425,800 ) | ( 350,974,431 ) |
| Increase in contract asset | | ( 119,351,065 ) | ( 46,616,636 ) | ( 684,636 ) |
| Decrease (increase) in land and land development costs | | ( 207,771,659 ) | ( 466,815 ) | 30,301,757 |
| Increase in property development costs | | ( 116,302,673 ) | ( 570,775,264 ) | ( 24,333,237 ) |
| Increase in other assets | | ( 767,876,733 ) | ( 470,924,721 ) | ( 449,808,332 ) |
| Increase (decrease) in trade and other payables | | 11,292,727 | 589,326,597 | ( 120,612,292 ) |
| Increase in contract liability | | 86,131,768 | 118,173,097 | 6,154,956 |
| Increase (decrease) in deposits and advances | | 174,168,373 | 95,095,994 | ( 68,345,689 ) |
| Increase (decrease) in retirement benefit obligation | | ( 65,371,122 ) | 1,013,715 | 1,745,184 |
| Cash generated from operations | | 991,584,352 | 1,271,817,311 | 535,370,043 |
| Cash paid for final and capital gains taxes | 24 | ( 13,251,558 ) | ( 24,993,156 ) | ( 42,926,624 ) |
| Interest received | | 66,668,597 | 7,154,349 | 2,993,008 |
| Net Cash From Operating Activities | | 1,045,001,391 | 1,253,978,504 | 495,436,427 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Investment in short-term placements | 12 | ( 1,400,000,000 ) | - | - |
| Construction in progress and development costs of investment properties | 15 | ( 417,451,274 ) | ( 746,426,905 ) | ( 392,831,907 ) |
| Additional advances to related parties | 25 | ( 126,377,851 ) | ( 102,693,465 ) | ( 112,519,249 ) |
| Collection of advances to associates, joint ventures and other related parties | 25 | 65,137,964 | 116,271,856 | 83,845,487 |
| Acquisitions of property and equipment | 14 | ( 29,848,923 ) | ( 18,908,741 ) | ( 62,800,578 ) |
| Proceeds from sale of investment properties | 15 | - | 448,828,202 | 465,510,000 |
| Acquisition of financial assets at fair value through other comprehensive income | 16 | - | ( 48,828,780 ) | - |
| Acquisition of a subsidiary | | - | - | ( 1,250,000 ) |
| Net Cash Used in Investing Activities | | ( 1,908,540,084 ) | ( 351,757,833 ) | ( 20,046,247 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from issuance of shares of stock | 22 | 7,643,822,707 | - | - |
| Repayments of interest-bearing loans and borrowings | 17 | ( 1,552,982,945 ) | ( 545,478,732 ) | ( 637,348,888 ) |
| Additional interest-bearing loans and borrowings | 17 | 1,005,000,000 | 358,972,403 | 421,211,951 |
| Finance costs paid | | ( 85,592,203 ) | ( 82,959,332 ) | ( 81,872,909 ) |
| Repayments of advances from related parties | 25 | ( 44,882,438 ) | ( 8,960,439 ) | ( 4,256,785 ) |
| Advances received from related parties | 25 | - | 1,219,082 | 595,000 |
| Net Cash From (Used in) Financing Activities | | 6,965,365,121 | ( 277,207,018 ) | ( 301,671,631 ) |
| **Effect of Changes in Foreign Exchange Rate on Cash and Cash Equivalents** | | 2,854,408 | 9,394 | 967,540 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 6,104,680,836 | 625,023,047 | 174,686,089 |
| **CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARY** | | - | - | 4,344,363 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 1,444,538,812 | 819,515,765 | 640,485,313 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | P 7,549,219,648 | P 1,444,538,812 | P 819,515,765 |

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

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
***(A Subsidiary of Wendel Holdings Co., Inc.)***
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2018 AND 2017**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

### *1.1 Incorporation and Operations*

D.M. Wenceslao & Associates, Incorporated (DMWAI or the Parent Company) was incorporated in the Philippines on April 7, 1965. DMWAI is presently engaged in the trade and business of general builders and contractors and related activities such as acting as specialty construction contractors, supervisors or managers in all cases of constructions, erections and works both public and private, real estate business and leasing. As a stock corporation, the Company's corporate life is 50 years. On December 4, 2012, the Philippine Securities and Exchange Commission (SEC) approved the Parent Company's application for the extension of its corporate life for another 50 years.

On June 29, 2018, the Parent Company's shares of stock were listed at the Philippine Stock Exchange (PSE) (see Note 27.1).

DMWAI holds certain investments in entities that are either subsidiaries, associates or joint ventures and all are incorporated in the Philippines (see Notes 1.2 and 13).

DMWAI is a subsidiary of Wendel Holdings Co., Inc. (WHI or Ultimate Parent Company), a company incorporated and domiciled in the Philippines. WHI is presently engaged in raising investments either through borrowings, sale or lease of its capital assets. The effective percentage of ownership of WHI in DMWAI aggregates to 62.92% and 78.65% as of December 31, 2018 and 2017, respectively.

DMWAI's registered office, which is also its principal place of business, is located at 3rd Floor Aseana Powerstation Building, Pres. Macapagal Avenue, Aseana Business Park, Parañaque City. The registered office of WHI, which is also its principal place of business, is at 306 E. Rodriguez Sr. Boulevard, Quezon City.

### 1.2 Subsidiaries, Associates and Joint Ventures

The Parent Company holds effective ownership interests in certain subsidiaries (together with the Parent Company, collectively hereinafter referred to as the "Group"), associates, and joint ventures, that are currently operating or are established to engage in businesses related to the main business of the Parent Company, in these consolidated financial statements. As of December 31, 2018 and 2017 (as restated – see Note 27.5), the following summarizes the effective percentage of ownership or interest of DMWAI over these entities:

| Name of Subsidiaries/Associates/Joint Ventures | Explanatory Notes | Effective Percentage of Ownership/Interest |
|---|---|---|
| **Subsidiaries:** | | |
| *Direct:* | | |
| Aseana Residential Holdings Corp. (ARHC) | (a) | 100.00% |
| Aseana Holdings, Inc. (AHI) | (b) | 99.98% |
| Fabricom, Inc. (FI) | (c) | 99.98% |
| Fabricom Realty Development Corporation (FRDC) | (d) | 62.20% |
| R-1 Consortium, Inc. (R-1) | (e) | 55.45% |
| *Direct and Indirect:* | | |
| Portal Holdings, Inc. (PHI) | (f) | 100.00% |
| Mandaue Land Consortium, Inc. (MLCI) | (g) | 81.00% |
| Aseana I.T. Plaza, Inc. (AITPI) | (h) | 66.97% |
| SHLP BBP Realty, Inc. (SBRI) | (i) | 55.96% |
| *Indirect:* | | |
| Reine, Inc. (Reine) – *Accounted for as Asset Acquisition* | (j) | 100.00% |
| Boracay International Airport & Dev't Corp. (BIADC) | (k) | 99.98% |
| U-City Technologies Philippines, Inc. (UCTPI) | (l) | 99.98% |
| Aseana City Transport & Travel Corp. (ACTTC) | (m) | 99.98% |
| Aseana Gas Energy Corp. (AGEC) | (n) | 99.98% |
| Aseana Real Esate Services Management Corp. (ARESM) | (o) | 95.98% |
| Bay Area Holdings, Inc. (BAHI) | (p) | 59.98% |
| **Associates:** | | |
| Alphaland Heavy Equipment, Corp. (AHEC) | (q) | 50.00% |
| European Resources and Technology, Inc. (ERTI) | (r) | 42.00% |
| Aseana CL, Beach and Marina Development Corporation (ACBMDC) | (s) | 36.00% |
| **Joint ventures:** | | |
| Bay Resources and Development Corporation (BRADCO) | (t) | 50.00% |
| Alphaland Bay City Corporation (ABCC) | (u) | 34.73% |

**Notes:**

(a) Established to purchase, acquire and own, hold, use, assign, transfer, mortgage, pledge, exchange or otherwise dispose of, subject to limitations imposed by law, real and personal property, including but not limited to, land, buildings, condominiums, shares of stock, bonds and other securities.

(b) Established to engage in the business of owning, holding, exchanging, or otherwise disposing such items as real and personal properties, and securities such as stocks, bonds and to take part and assist in any legal matter for the purchase and sale of any securities as may be allowed by law without acting as or engaging in the business of an investment house, mutual fund or broker or dealer in securities.

(c) Established to engage in the business of importation and marketing of heavy equipment, industrial equipment or any commercial products, which may be the object of commerce for the attainment of corporate objectives. As more fully discussed in Note 27.4, the increase in the Parent Company's effective percentage ownership in FI and BAHI is a result of a deed of exchange representing a business combination that is accounted for under pooling of interest method involving entities under common control.

(d) Established to engage in housing and real estate development and selling and engaging in other related activities.

(e) Established to engage in general construction and other allied businesses including constructing, enlarging, repairing, removing, developing, or otherwise engaging in any work upon building roads, highways, manufacturing plants, bridges, airfields, piers, docks, mines, masonry and earth construction, and to make, execute, bid for and take or receive any contracts or assignment of contracts in relation thereto.

(f) DMWAI's effective interest is derived from its 40.00% direct ownership and 60.00% indirect holdings through ARHC. PHI was established to purchase, subscribe for, or otherwise acquire and own, hold, use, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property, including but not limited to, land, buildings, condominiums, shares of stock, bonds and other securities.

(g) DMWAI's effective interest is derived from its 40.00% direct ownership and 41.00% indirect holdings through AHI and R-1 which own 30.00% and 20.00%, respectively. MLCI was established to engage in general realty and other allied businesses including owning, improving, subdividing, developing, reclaiming, enlarging, repairing, constructing, exchanging, leasing and holding investment or otherwise, real estate and lands of all kinds and any buildings, houses and other structures.

(h) DMWAI's effective ownership interest is derived from its 41.98% direct ownership and 24.99% indirect holdings through PHI. AITPI was established to engage in the business of owning, using, improving, developing, selling, exchanging, leasing, and holding for investment or otherwise, real estate of all kinds, including building houses, apartments and other structures, and related activities.

(i) DMWAI's effective ownership is derived from its 29.98% direct ownership and 25.98% indirect holdings through AHI, BAHI and PHI which each owns 9.99% of SBRI. SBRI was established to engage in real estate development and engaging in other related activities.

(j) Reine was acquired in 2017 and indirectly owned through AHI [see Notes 3.1(j) and 13.4]; established to acquire by purchase, lease, donation, or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop, and hold for investment or otherwise, real estate of all kinds, whether improve, manage or otherwise dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances.

(k) Indirectly owned through AHI; established to build an international airport in Boracay, Municipality of Malay and/ or Carabao Island, San Jose, Romblon, Philippines.

(l) Indirectly owned through AHI; established to install and provide electronic security apparatus and products to industrial, commercial and other establishments whether public or private for the purpose of securing or protecting properties and other related services. In September 2016, AHI acquired through cash consideration the entire 40.00% minority interest of the other stockholder resulting in 100.00% direct ownership by AHI in UCTPI (see Note 27.4).

(m) Indirectly owned through AHI; established to engage in the business of transportation of passengers by means of public utility vehicles for the general public and to lease out or rent its public utility vehicles for special trips.

(n) Indirectly owned through AHI; established to engage in, conduct and carry on the business of buying, selling, distributing, marketing of liquefied petroleum gas and other fuel products at wholesale or retail and to construct a reticulation network in strategically located tank to enable safe and sufficient distribution of piped gas to end users in Aseana Business Park.

(o) Indirectly owned through AHI; established to acquire and manage properties such as commercial, residential, office condominium and industrial real estate [see Notes 27.5 and 3.1(j)].

(p) Indirectly owned through FI; established to purchase, acquire, or otherwise own and hold, use, sell, assign, transfer, mortgage, pledge, or otherwise dispose of, real and personal property, including land, buildings, condominiums and engaging in other related activities. As more fully discussed in Note 27.4, the increase in the Parent Company's effective percentage ownership in FI and BAHI is a result of a deed of exchange representing a business combination that is accounted for under pooling of interest method involving entities under common control.

(q) Indirectly owned through FI; established to purchase, import, or otherwise acquire, lease, sell, distribute, market, convey or otherwise dispose heavy equipment, machinery and related implements. As of December 31, 2018, AHEC is currently in the process of liquidation (see Note 13.1).

(r) Established to engage in collecting, segregating, recycling, composting, filling, disposing, treating or otherwise managing household, industrial and other kinds of garbage for local, or other government units and private persons and firms as well as extended guidance and education for proper waste management.

(s) DMWAI's effective interest is derived from its 10.00% direct ownership and 26.00% indirect holdings through AHI. ACBMDC was established to engage in real estate business with marinas, cruise liner facilities and beach resorts in all its aspects; to acquire, rent or otherwise deal in and dispose of all kinds or real estate objects, involving commercial, industrial, urban, residential or other kinds of real property.

(t) BRADCO was established to acquire, develop and market real estate properties [see Note 13.2(b)].

(u) ABCC was established to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures [see Note 13.2(a)]. The effective percentage of interest is by virtue of the Group's joint venture agreement over ABCC.

As of December 31, 2018, FRDC, R-1, MLCI, AITPI, SBRI, BIADC, AGEC, ACBMDC and ABCC have not yet started commercial operations.

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

The consolidated financial statements of the Group as of and for the year ended December 31, 2018 (including the comparative consolidated financial statements for the years ended December 31, 2017 and 2016 and the corresponding figures as of January 1, 2017) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 15, 2019.

## 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. These policies have been consistently applied to all the years presented, unless otherwise stated.

### *2.1 Basis for Preparation of Consolidated Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

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

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

(b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income separate from the consolidated statement of profit or loss.

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

The Group presented a third consolidated statement of financial position representing the corresponding figures as of January 1, 2017, without the related notes as allowed by PAS 1 except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, due to the adoption of PFRS 9 (2014), *Financial Instruments*, and PFRS 15, *Revenue from Contracts with Customers* together with the *Clarifications to PFRS 15* in 2018, which were applied retrospectively to each prior reporting period, and certain restatements and reclassifications made in the 2017 and 2016 consolidated financial statements, which resulted in a material impact to the Group's consolidated financial statements.

(c) *Prior Period Restatements and Reclassifications of Accounts*

The Group's adoption of PFRS 9 and PFRS 15 is further discussed in Note 2.2(a)(ii) and Note 2.2(a)(iii), respectively.

In addition, the Group restated and reclassified certain accounts in the current year relating to its 2017 and 2016 consolidated statements of financial position, and 2017 and 2016 consolidated statements of profit or loss to conform to the current year's classification and presentation, and correct the error in the recognition, presentation and account classification of such assets, liabilities, income and expenses in the previous years.

Additional information on the effects of the restatements on the assets, liabilities, equity, and profit or loss accounts arising from the adoption of these new accounting standards, correction of error and material reclassifications of accounts are disclosed in Note 27.5.

(d) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation 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. Functional currency is the currency of the primary economic environment in which the Group operates.

## *2.2 Adoption of New and Amended PFRS*

*(a) Effective in 2018 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, 2018:

| | | |
|---|---|---|
| PAS 40 (Amendments) | : | Investment Property – Reclassification to and from Investment Property |
| PFRS 9 | : | Financial Instruments |
| PFRS 15 | : | Revenue from Contracts with Customers; Clarifications to PFRS 15 |
| International Financial Reporting Interpretations Committee (IFRIC) 22 | : | Foreign Currency Transactions and Advance Consideration |
| Annual Improvements to PFRS (2014-2016 Cycle) PAS 28 (Amendments) | : | Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification |

Discussed below are the relevant information about these new standards, amendments, interpretation and improvements.

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provided a non-exhaustive list of examples constituting change in use. The application of these amendments have no impact on the Group's consolidated financial statements.

(ii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and financial assets at fair value through other comprehensive income (FVOCI);

- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The Group's new accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.4 and 2.10 while the disclosures on related credit risk are presented in Note 5.2.

The impact of the adoption of PFRS 9 to the Group's consolidated financial statements are as follows:

1) *Equity instruments reclassified from available-for-sale financial assets (AFS) to financial assets at fair value through other comprehensive income (FVOCI)*

   With respect to certain unquoted equity investments and proprietary golf club shares which were previously classified as AFS financial assets under PAS 39, *Financial Instruments: Recognition and Measurement*, the Group elected to irrevocably designate these financial assets at FVOCI, as the financial assets are now held by the Group with the objective of selling in the future for liquidity purposes. This did not result in any impact as to measurement and presentation as the financial assets are still measured at fair value and both categories are included under the Other Non-current Assets account in the consolidated statements of financial position.

2) *Credit losses on receivables*

   The application of the ECL model based on the stages of impairment assessment for financial assets at amortized cost resulted in the recognition of additional allowance for credit losses amounting to P40.1 million as of January 1, 2016. The amount of P28.0 million, net of related deferred tax, was charged against the opening balance of Retained Earnings account as of January 1, 2016. Impairment losses recognized under the ECL model amounted to P8.3 million, P1.0 million, and P3.2 million for the years ended December 31, 2018, 2017 and 2016, respectively [see Note 5.2(b)].

(iii) PFRS 15, *Revenue from Contract with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Relative to the adoption of PFRS 15 in the Philippines for real estate transactions, the FRSC also approved the issuance of the following:

- PIC Q&A 2016-04, *Application of PFRS 15*, "*Revenue from Contracts with Customers," on Sale of Residential Properties under Pre-completion Contracts*. This Q&A clarifies that sales of residential properties under pre-completion stage is recognized over time on the basis that the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable sight to payment for performance completed to date;

- PIC Q&A 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry*. This Q&A provides guidance on the application of PFRS 15 to real estate industry; and,

- PIC Q&A 2018-14, *PFRS 15 Accounting for Cancellation of Real Estate Sales*. This Q&A provides guidance on the appropriate accounting treatment for cancellation of real estate sales.

Relative to the adoption of PFRS 15 and relevant Philippine Interpretations Committee (PIC) Question & Answer (Q&A) pronouncements, the SEC issued the following MCs:

- MC No. 14 series of 2018. This circular allows the deferral of the following concepts from PIC Q&A 2018-12:

  *(a)* accounting for the significant financing component in a contract to sell;

  *(b)* treatment of land in the determination of percentage of completion; and,

  *(c)* treatment of uninstalled materials in the determination of percentage of completion.

- MC No. 3 series of 2019. This circular allows the deferral of the application of PIC Q&A 2018-12-H, specific to the accounting for common usage service area, and PIC Q&A 2018-14.

The Group elected to defer the adoption of the relevant concepts in PIC Q&A 2018-12 and 2018-14 in accordance with MC No. 14 series of 2018 and MC No. 3 series of 2019, respectively. As allowed by the SEC, the deferral of the aforementioned PIC Q&As is within a period of three years, or until 2020. Had these provisions been adopted, it would have the following impact in the consolidated financial statements:

- the exclusion of land and uninstalled materials in the determination of percentage-of-completion would reduce the percentage of completion of real estate projects resulting in a decrease in retained earnings as at January 1, 2017 as well as a decrease in the revenue from sale of condominium units for the years ended December 31, 2018 and 2017;

- the mismatch between the percentage-of-completion of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for the contract asset and interest expense for the contract liability using the effective interest rate method and this would have affected the retained earnings as at January 1, 2017 and the revenue from sale of condominium units for the years ended December 31, 2018 and 2017. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes; and,

- upon sales cancellation, the repossessed inventory would be recorded at fair value plus cost to repossess (or fair value less cost to repossess if this would have been adopted). This would have increased retained earnings as at January 1, 2017 and recognized the gain from repossession for the years ended December 31, 2018 and 2017. Currently, the Group records the repossessed inventory at its original carrying amount and recognizes any difference between the carrying amount of the derecognized contract asset and the repossessed property in profit or loss.

The Group's adoption of PFRS 15 has resulted in changes in its accounting policies (see Notes 2.5, 2.15 and 2.16) and adjustments to the amounts recognized in its consolidated financial statements. It has applied PFRS 15 retrospectively to all uncompleted contracts as of January 1, 2016 in accordance with its transitional provisions. The following are the adjustments made by the Group to its consolidated financial statements:

- reclassified portion of receivables amounting to P47.3 million and P0.7 million as of December 31, 2017 and January 1, 2017, respectively, from sale of condominium units under current and non-current Receivables account relating to rights to payment which are conditioned upon the completion of units sold to Contract Asset account;

- restated the balances of Property Development Costs, Sale of Condominium Units and Cost of Sales of Condominium Units accounts (including the restatement to derecognize the previously applicable Reserve for Property Development, Deferred Gross Profit on Real Estate Sales, Realized Gross Profit and Deferred Gross Profit accounts) amounting to P2.1 million, P166.7 million and P172.7 million, respectively, as of and for the year ended December 31, 2017 and P0.1 million, P21.4 million and P21.4 million, respectively, as of and for the year ended December 31, 2016 to reflect policy changes on the determination of percentage-of-completion;

- capitalized commission expenses amounting to P24.3 million and P4.2 million in 2017 and 2016, respectively, directly related to contract acquisitions, previously charged under Other Operating Expenses account in the consolidated statements of profit or loss to Contract acquisition costs under Other Current and Other Non-current Assets accounts in the consolidated statements of financial position;

- presented the amortization of capitalized commission expense amounting to P6.9 million and P2.0 million in 2017 and 2016, respectively, under Other Operating Expenses account in the consolidated statements of profit or loss;

- recognized a Contract Liability account amounting to P124.3 million and P6.2 million as of December 31, 2017 and January 1, 2017, respectively, for the amount of consideration received from customers in excess of the amount the Group has rights to receive based on the progress of the real estate development; and,

- restated the related Deferred Tax Income and Deferred Tax Liabilities accounts amounting to P0.6 million and P33,205, respectively, as of and for the year ended December 31, 2017, and both P0.6 million as of and for the year ended December 31, 2016 to recognize for the temporary differences on the adjustments made.

The Group also restated its Other Revenues account that significantly include utility recoveries arising from its leasing activities to conform with the requirements of PFRS 15 since the Group considered itself acting only as an agent for utility transactions of its tenants under operating leases [see Note 3.1(k)]. Previously, the other revenues representing utility charges billed to tenants and the related expenses thereto were presented gross and separate under Other Revenues and Cost of rentals accounts in the consolidated statements of profit or loss.

There were no applicable adjustments made in accordance with PFRS 15 relative to the Group's construction activities since the Group applies the percentage-of-completion method for its uncompleted contracts which is consistent with the requirements of PFRS 15 (i.e., significantly pile driving works) as of January 1, 2016, which are mostly less than 12 months to complete from the inception of the construction contracts (see Note 2.16).

In making its disclosures, the Group used a practical expedient not to present the amount of transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting periods, except for real estate transactions. This is not expected to have a significant impact to the Group's consolidated financial statements. The Group did not use any other practical expedients in applying PFRS 15.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration.* The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this amendment has no impact on the Group's consolidated financial statements.

(v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, only PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification*, is relevant to the Group but had no material impact on the Group's consolidated financial statements as this amendment merely clarifies existing requirements. Specifically, the amendment clarifies that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

*(b) Effective in 2018 that are not Relevant to the Group*

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's consolidated financial statements:

| | | |
|---|---|---|
| PFRS 2 (Amendments) | : | Share-based Payment – Classification and Measurement of Share-based Payment Transactions |
| PFRS 4 (Amendments) | : | Insurance Contracts – Applying PFRS 9 with PFRS 4, Insurance Contracts |
| Annual Improvements to PFRS (2014-2016 Cycle) | | |
| PFRS 1 (Amendments) | : | First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions |

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Group's consolidated financial statements but expects such not to have significant impact as the Group is the lessor for most of its operating leases.

(v) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends.* The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation.* The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

### *2.3 Basis of Consolidation*

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries, 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.

The historical financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

The Parent Company accounts for its investments in subsidiaries, associates, joint ventures and noncontrolling interests 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 Group obtains control.

The Group 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. Accordingly, entities are deconsolidated from the date that control ceases.

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

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree 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 noncontrolling interest in the acquiree, either at fair value or at the noncontrolling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any noncontrolling interest 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 is recognized directly as gain in profit or loss (see Note 2.9).

*(ii) Accounting for 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 shareholder are accounted for under the pooling-of-interests method. Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting. Under this method, the financial information of the acquired entities are included as if the acquisition occurred in the earliest period presented. The assets and liabilities of the acquired entities are combined using their respective carrying values and any difference is accounted for and recognized in Other Reserves account presented under the consolidated statement of changes in equity.

*(b) Investment in Associates*

Associates are those entities over which the Group is able to exert significant influence but 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 investment in associate is 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 recognized in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Group'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 Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Share in Net Earnings or Losses of Associates and Joint Ventures account in the consolidated statement of profit or loss.

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

Changes resulting from other comprehensive income transactions of the associate or items recognized directly 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 on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

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

*(c)* *Investment in Joint Ventures*

A jointly controlled entity is a corporation, partnership, or other entity in which two or more venturers have an interest, under a contractual arrangement that establishes joint control over the entity. Each venturer usually contributes cash or other resources to the jointly controlled entity. Those contributions are included in the accounting records of the venturer and recognised in the venturer's financial statements as an investment in the jointly controlled entity.

Investments in joint venture are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in the jointly controlled entity is subject to the purchase method. The purchase method involves the recognition of the jointly controlled entity's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recognized in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the venturer's share of the identifiable net assets of the joint venture at the date of acquisition. Any goodwill or fair value adjustment attributable to the venturer's share in the joint venture is included in the amount recognized as investment in joint venture.

All subsequent changes to the ownership interest in the equity of the joint venture are recognized in the venturer's carrying amount of the investments. Changes resulting from the profit or loss generated by the joint venture are credited or charged against the Share in Net Earnings or Losses of Associates and Joint Ventures account in the consolidated statement of profit or loss.

Impairment loss is provided when there is objective evidence that the investment in joint venture will not be recovered (see Note 2.21).

Changes resulting from other comprehensive income transactions of the jointly controlled entity or items recognized directly in the jointly controlled entity's equity are recognized in other comprehensive income or equity of the venturer, as applicable. However, when the venturer's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the venturer does not recognize further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the venturer resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the jointly controlled entity are accounted for as a reduction of the carrying value of the investment.

*(d) Transactions with Noncontrolling Interests*

The Group's transactions with noncontrolling interests 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 (i.e., Other Reserves account). Disposals of equity investments to noncontrolling interests result in gains and losses for the Group that are also recognized in other components of 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.

### 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.

*(a) Classification, Measurement and Reclassification of Financial Assets*

Under PFRS 9, 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 classified based on the following categories: financial assets at amortized cost, at FVOCI and at FVTPL. The classification and measurement of financial assets that are applicable to the Group are described below and in the succeeding page.

*(i) 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 any impairment in value.

The Group's consolidated financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Receivables (except Advances to suppliers), Short-term placement (presented as part of Other Current Assets account), Contract Asset, and Refundable deposits (presented as part of Other Non-current Assets account).

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 relating to holding financial instruments (i.e., cash and cash equivalents and short-term placements) is recognized as the interest accrues taking into account the effective yield on the asset.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.

For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of profit or loss as part of Finance Income account.

*(ii) Financial Assets at Fair Value Through Other Comprehensive Income*

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as FVTPL. The Group has designated unquoted equity instruments and proprietary golf club shares as at FVOCI on initial application of PFRS 9. These are presented as Financial assets at FVOCI under Other Non-current Assets account in the consolidated statement of financial position.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of profit or loss as part of Finance Income account.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Other Income account, when the Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

*(b) Impairment of Financial Assets*

The Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables and other financial assets carried at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Group uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Note 5.2(b)].

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

- *Probability of default* – It is an estimate of likelihood of default over a given time horizon.

- *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.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. The amount of credit loss allowance for financial assets at amortized cost and debt securities classified under financial assets at FVOCI is determined at the end of the reporting period and is adjusted to profit or loss.

*(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 Land and Land Development Costs and Property Development Costs*

*(a) Land and Land Development Costs*

Land and land development costs are initially recorded at acquisition cost or cost of land reclamation and related land development costs, if the land is reclaimed. Land and land development costs include capitalized borrowing costs incurred before the completion of the reclamation project (see Note 2.23). A valuation allowance is provided for land development costs that are no longer recoverable.

Subsequent to initial recognition, land and land development costs are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. An item of land and land development cost is derecognized upon disposal or when no future economic benefits are expected to arise from the sale of asset.

*(b) Property Development Costs*

The costs of land, development and construction of the residential condominium projects of the Group are accumulated in the Property Development Costs account in the consolidated statement of financial position. Borrowing costs, if any, on certain loans incurred during the development of the real estate properties are also capitalized by the Group as part of property development costs (see Note 2.23). All costs relating to the real estate properties sold are recognized as cost/expense as the work to which they relate is performed.

Costs of properties and projects accounted for as Property Development Costs 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 based on the input method in the year in which these changes become known [see Note 2.16(c)]. Any impairment loss from a real estate project 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 profit or loss.

### *2.6 Property and Equipment*

Except for land stated at acquisition cost less any impairment in value, property and equipment are stated at acquisition cost or construction cost less accumulated depreciation, amortization and any impairment losses. The cost of an asset comprises its purchase price or construction cost and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while regular expenditures for repairs and maintenance are charged to expense as incurred.

Construction in progress pertains to the accumulated costs of putting up the assets, additions or improvements including the applicable borrowing cost (see Note 2.23). Cost is recognized when materials purchased and services performed in relation to construction of the asset have been delivered or rendered. When the asset has become available for use, the accumulated cost is transferred to the appropriate asset account, and depreciation is recognized based on the estimated useful life of such asset.

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

| | |
|---|---|
| Land improvements | 15 years |
| Machinery and construction equipment | 3-5 years |
| Transportation equipment | 5 years |
| Furniture and office equipment | 2-5 years |
| Machinery and other equipment | 3 years |

Amortization of leasehold improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter (i.e., five years).

Fully depreciated and amortized assets are retained in the accounts until these 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 2.21).

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

An item of property and equipment, including the related accumulated depreciation and amortization, and impairment losses, if any, 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.

### *2.7 Other Assets*

Other 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 Group and the asset has a cost or value that can be measured reliably.

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

Advances to suppliers that will be applied as payment for construction of condominium units accounted for as real estate inventories are classified and presented under the Other Current Asset account. On the other hand, advances to suppliers that will be applied as payment for construction of property and equipment, and investment properties are classified and presented under the Other Non-current Asset account. These classification and presentation is based on the eventual realization of the asset to which it was advanced for.

### *2.8 Investment Properties*

Properties held for lease under operating lease agreements and/or for capital appreciation, which comprise mainly of land, buildings and improvements and condominium units, are classified as investment property and carried at cost less accumulated depreciation and any impairment loss except for land, which is carried at cost less any impairment in value (see Note 2.21).

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

| | |
|---|---|
| Buildings and improvements | 30 years |
| Condominium units | 25 years |

Construction in progress pertains to the accumulated costs of putting up the assets, additions or improvements including the applicable borrowing costs (see Note 2.23).

Cost is recognized when materials purchased and services performed in relation to construction of an asset have been delivered or rendered. When the asset has become available for use, the accumulated cost is transferred to the appropriate investment property account, and depreciation is recognized based on the estimated useful life of such asset.

The residual values, useful life and method of depreciation of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of investment property, including the related accumulated depreciation and impairment losses, if any, 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.

Transfers from other accounts (such as Land and Land Development Costs and Property and Equipment) 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. 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 measurement is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Rental income and operating expenses from investment property, reported under Revenues and Cost of Services and Sales, respectively, are recognized as described in Note 2.16.

### *2.9 Business Combinations*

PFRS 3 requires that an entity shall determine whether a transaction or other event is a business combination. If the assets acquired are not a business, the entity shall account for the transaction as an asset acquisition. Business acquisitions are accounted for using the acquisition or pooling-of-interest method of accounting [see Note 2.3(a)]. The accounting policy for asset acquisition is more fully discussed in Note 2.17.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Parent Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill 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 income.

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 the 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.

### *2.10 Financial Liabilities*

Financial liabilities, which include loans and borrowings, trade and other payables (except tax-related liabilities), advances from a co-joint venturer, advances from and due to related parties, rental deposits and construction bond under Deposits and Advances account, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense under Finance Costs account in the consolidated statement of profit or loss.

Loans and borrowings are raised for support of short and long-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance costs are charged to profit or loss, except for capitalized borrowing costs for qualifying assets, on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables are initially recognized at their fair values and subsequently measured at amortized cost, using effective interest method for those with maturities beyond one year, less settlement payments.

Advances from related parties, advances from a co-joint venturer and due to a related party are initially recognized at its nominal value and subsequently measured at amortized cost less settlement payments.

Rental deposits are recognized when cash is received or becomes receivable from tenants based on the terms of the lease agreements. These are initially measured at the amount of cash received or receivables in accordance with the terms of the lease agreement. Rental deposits are subsequently measured at amortized cost 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 reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have unconditional right to defer settlement of the liability for at least twelve months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

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

### *2.11 Segment Reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's executive committee; its chief operating decision-maker. The executive committee 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 technologies and other resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements.

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

### *2.12 Offsetting 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 there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

### *2.13 Provisions and Contingencies*

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

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

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

### *2.14 Non-current Asset Held for Disposal or Termination*

Non-current asset held for disposal or termination is presented as Investment in Joint Venture Held for Termination account in the consolidated statement of financial position, whereby the Group intends to recover such investment through the transfer of investment property within one year from the date of classification as held for disposal or expected recovery of the underlying asset by the Group due to the termination of a certain joint venture agreement with a co-joint venturer, subject to fulfillment of certain conditions [see Note 13.2(a)].

The Group classifies a non-current asset (or disposal group) as held for disposal or termination if its carrying amount will be recovered principally through a disposal or termination transaction rather than through continuing use, and that the Group is committed to recover the underlying asset. In the event that the disposal or termination of the asset is extended beyond one year, the extension of the period required to complete the disposal or termination does not preclude an asset from being classified as held for disposal if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to dispose or terminate the investment in shares of stock and recover the underlying land to be accounted for as investment property in the future.

Non-current asset held for disposal or termination is measured at the lower of its carrying amount, immediately prior to their classification as held for disposal or termination, and its fair value less costs to dispose or terminate. The Group shall recognize an impairment loss for any initial or subsequent write-down of the asset at fair value less cost to dispose. Gain from any subsequent increase in fair value less cost to dispose of an asset is recognized to the extent of the cumulative impairment loss previously recognized.

If the Group has classified an asset as held for disposal or termination, but the criteria for it to be recognized as held for disposal or termination are no longer satisfied, the Group shall cease to classify the asset as held for disposal or termination.

The gain or loss arising from the disposal or termination, or remeasurement of the asset held for disposal or termination, if any, is recognized in profit or loss and included as part of Other Income (Charges) in the consolidated statement of profit or loss.

### *2.15 Contract Asset and Contract Liability*

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 (see Note 2.16). Any rights to consideration recognized by the Group as it develops the property are presented as Contract Asset account in the consolidated statement of financial position. Contract asset is subsequently tested for impairment in the same manner as the Group assesses impairment of its financial assets.

Any consideration received by the Group in excess of the amount for which the Group is entitled is presented as Contract Liability account in the consolidated statement of financial position (see Note 2.16). 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.

### *2.16 Revenue and Expense Recognition*

Revenue comprises revenue from construction contracts, rentals, and sale of land and condominium units.

To determine whether to recognize revenue, 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.

For Step 1 to be achieved, the following five gating criteria must be present:

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

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

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

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
(ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) 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 Group enters into transactions involving construction services, sale of land and condominium units, and other contracts containing performance obligations with counterparties. The significant judgments used in determining the transaction price and the amounts allocated to the performance obligations are disclosed in Note 3.1(b). The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the asset 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. Except as disclosed in the consolidated financial statements, the Group uses the practical expedient in PFRS 15 for customer contracts entered into other than for construction services and sale of land, 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 periods and the explanation of when such amount will be recognized as revenue since such Group's contracts with customers have original expected duration of one year or less.

In addition, the following specific recognition criteria must also be met before revenue is recognized [significant judgments in determining the timing of satisfaction of the following performance obligations are disclosed in Note 3.1(a)]:

*(a)* *Sale of land* – revenue from sale of land is recognized as the control transfers at the point in time with the buyer, that is when the Group delivered the possession and buyer accepted the property. At that point, the buyer may already use the property and the Group becomes entitled to the full amount due from the sales contract which are normally collected within one year from the contract inception date.

Payments received from buyers which do not meet the revenue recognition criteria are presented as Buyers' deposits under the Deposits and Advances account in the consolidated statement of financial position.

For tax reporting purposes, revenue on sale and cost of raw land sold are recognized in full when more than 25% of the contract price is collected within the taxable year; otherwise, revenue and cost of raw land sold are recognized based on the percentage of collections over the contract price, excluding VAT.

*(b)* *Construction contracts* – revenue is recognized based on the percentage-of-completion determined through the input method as the construction services are provided. The stage of completion is measured on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation (i.e., resources consumed, labor hours expended, other costs incurred, etc.) relative to the total expected inputs to the satisfaction of such performance obligation. Contract costs are recognized when incurred.

Customers are invoiced based on certain milestone as work progresses, which are also due upon receipt by the customers, depending on applicable credit terms. Any amounts remaining unbilled at the end of a reporting period are presented in the consolidated statement of financial position as receivables as only the passage of time is required before payment of these amounts will be due.

There were no recognized Contract Asset or Contract Liability accounts applicable to construction contracts as of the end of the reporting periods [see Notes 2.2(a)(iii) and 2.15].

Progress billings not yet paid by customers and retention are presented as part of Receivables in the consolidated statement of financial position.

*(c)* *Sale of condominium units* – for financial reporting purposes, revenues from transactions covering sale of condominium units are recognized over time under the percentage-of-completion method which is in reference to input method of measuring progress of completion. The input method measures the percentage of total costs incurred to date [inclusive of the land and cost of uninstalled materials due to the Group's election to defer PIC Q&A 2018-12 as an allowed transition relief (see Note 2.2(a)(iii)] over the estimated costs to complete the projects.

Revenue recognized from real estate sales is presented as Sale of Condominium Units in the consolidated statement of profit or loss while the related asset or liability arising from the sale and progress of the development is presented as part of Contract Asset or Contract Liability accounts, as applicable, in the consolidated statement of financial position (see Note 2.15).

As discussed above, cost of condominium units sold before the completion of the projects include the acquisition cost of the land, development costs incurred to date, any applicable borrowing costs (see Note 2.23) and in accordance with the percentage-of-completion as determined based on the input method [see Note 2.5(b)].

Payments received from customers which do not meet the revenue recognition criteria are presented as Reservation deposits under the Deposits and Advances account in the consolidated statement of financial position (see Note 2.15).

For tax reporting purposes, revenue on sale and cost of condominium units sold are recognized in full when more than 25% of the contract price is collected within the taxable year; otherwise, revenue and cost of residential condominium units sold are recognized based on the percentage of collections over the contract price, excluding VAT.

*(d)* *Other revenues from common use service area (CUSA)* – Other revenues arising from CUSA charges related to leasing activities are recognized over time as the Group performs the contractually agreed task. Customers are invoiced monthly as work progresses, which are also due upon receipt by the customers.

*(e)* *Rendering of administrative and other services* – This is recognized on a time-and-materials basis as the services (i.e., consultancy and strategic real estate management activities) are provided to third party property owners and tenants within Aseana City. Customers are also invoiced monthly as work progresses, which are also due upon receipt by the customers. Any amounts remaining unbilled at the end of a reporting period are presented in the consolidated statement of financial position as receivables as only the passage of time is required before payment of these amounts will be due.

Incremental costs of obtaining a contract to sell the condominium units to customers are recognized as part of Contract acquisition costs under Other Current Assets and Other Non-current Assets accounts and is subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized. Except when the impact to the consolidated financial statements is significant for incremental costs in obtaining contracts relative to sale of condominium units and other customer contracts, the Group uses the practical expedient in PFRS 15 and has expensed such costs as incurred (i.e., for construction activities and sale of land) since the expected amortization period of these costs, if capitalized, would be less than one year.

The Group also incurs costs in fulfilling contracts with customers [see Note 3.2(h)]. However, as those costs are within the scope of other financial reporting standards, the Group accounts for those costs in accordance with accounting policies related to those financial reporting standards. Costs of rentals and other costs and operating expenses are recognized in the profit or loss upon utilization of the goods or services or at the date they are incurred. Finance costs are reported on an accrual basis except capitalized borrowing costs (see Note 2.23).

### *2.17 Acquisition of Assets*

Acquisition of interest in an entity that holds investment property which does not constitute a business is accounted for as an asset acquisition (see Note 2.9). A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members and participant. Under the asset purchased accounting, the purchase costs are allocated to identifiable assets and liabilities based on relative fair values of individual items; goodwill or gain on bargain purchase is not recognized; and, transaction costs are capitalized.

### *2.18 Leases*

The Group accounts for its leases as follows:

*(a)* *Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term (see Note 2.6).

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

(b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term, including any minimum rent free period therein, plus additional rent free period as mutually agreed by the contracting parties. Revenue from rentals arise from the lease of investment property comprising of land and buildings.

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

### *2.19 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; (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; and, (d) the Group's retirement plan.

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

### *2.20 Foreign Currency Transactions and Translation*

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

Foreign currency gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as part of Finance income or Finance costs under Other Income (Charges) account in the consolidated statement of profit or loss.

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

The Group's investments in associates and joint ventures, property and equipment, investment properties and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized 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.

### *2.22 Employee Benefits*

The Group provides short-term and post-employment benefits to employees through defined benefit and defined contribution plans, and other employee benefits which are recognized as follows:

*(a) Short-term Employee Benefits*

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the annual reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in the consolidated profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued expenses under Trade and Other Payable accounts in the consolidated statement of financial position.

*(b) Post-employment Defined Benefit Plan*

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

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by 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 zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), in 2018 and reference rates published by Philippine Dealing & Exchange Corp. in 2017 and previous years], 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) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs account (or Finance Income account, as applicable) in the consolidated statement of profit or loss.

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

*(b)* *Post-employment Defined Contribution Plans*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity (e.g., Social Security System). Under this plan, the Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

*(c)* *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.

*(d) Compensated Absences*

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

### *2.23 Borrowing Costs*

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 attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset (see Notes 2.5, 2.6 and 2.8). 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.

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

### *2.24 Income Taxes*

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

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the 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 the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset 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 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.

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 the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

### *2.25 Equity*

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

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves comprise of:

*(a)* Fair valuation of financial assets at FVOCI arising from gains or losses due to the changes in fair value;

*(b)* Remeasurements of retirement benefit obligation based on the cumulative balance of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions used in the determination of post-employment defined benefit obligation; and,

*(c)* Gains and losses due to the revaluation of certain investment property, previously classified as property and equipment, which is treated as part of the deemed cost upon transition to PFRS.

Other reserves pertain to the difference between the proportionate share of the Parent Company in the net assets of certain subsidiaries over the cost of the investment in the subsidiaries under the common control business combination which is accounted for using the pooling-of-interest method.

Retained earnings include all current and prior period results of operations as reported in the consolidated statement of profit or loss, reduced by the amounts of dividends declared, if any. Retained earnings also include an appropriated portion and therefore, are not available for dividend declaration or being restricted to cover the business expansion of the Group (see Note 27.3).

### *2.26 Earnings and Diluted Earnings Per Share*

Basic earnings per share is determined by dividing net profit attributable to the Parent Company's shareholders by the weighted average number of common shares issued, adjusted for any stock dividends or stock splits, less any shares held in treasury during the reporting period (see Note 26).

The diluted earnings per share is also computed by dividing net profit attributable to the Parent Company's shareholders by the weighted average number of common shares issued and outstanding during the reporting period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of any potentially dilutive preferred shares, convertible loan and stock option.

Currently, the basic and diluted earnings per share are the same as there are no dilutive preferred shares, convertible loan and stock option (see Note 26).

### *2.27 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 Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the 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 differ 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) Determining the Timing of Satisfaction of Performance Obligations*

*(i) Construction Contracts*

The Group determined that its revenue from construction services shall be recognized over time in accordance with the percentage-of-completion method. 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 construction services that create or enhance an asset that the customer controls as the asset is created or enhanced. This demonstrates that the customer obtains the benefits of the Group's rendering of construction service as it performs.

In determining the best method of measuring the progress of the Group's rendering of construction services, management considers the input method under PFRS 15 because of the direct relationship between the Group's effort, in terms of incurred labor hours and materials used, and the transfer of service to the customers.

*(ii) Sale of Condominium Units*

The Group determined that its performance obligation to develop properties promised in its contracts with customers is satisfied over time. In making this judgment, the Group considers any asset created or enhanced as the Group performs and the ability of the customer to control such asset as it is being created or enhanced; the timing of receipt and consumption of benefits by the customer; and the Group's enforceable right for payment for performance completed to date and the alternative use of the asset created to the Group.

In determining the best method of measuring the progress of the Group's property development, management considers the input method (i.e., percentage of total costs incurred to date, inclusive of the cost of land and uninstalled materials, over the estimated costs to complete the projects) under PFRS 15. Under this method, revenue is recognized by reference to the stage of development of the properties, i.e., revenue is recognized in the period in which the work is performed. This method faithfully depicts the transfer of goods or services because in a sale of real property, not all of the benefits are consumed by the customer until the complete satisfaction of the performance obligation.

*(iii) Sale of Raw Land*

The Group exercises critical judgment in determining whether the performance obligation to deliver and transfer the control over the land to customers is satisfied over time or at a point in time. In making this judgment, the Group considers the delivery to and acceptance by the buyer of the property as a transfer of control at specific point in time since the Group does not have a significant continuing involvement with the property sold to the buyer and the earning process is virtually complete. Further, the Group's enforceable right for payment becomes due upon transfer of control over the land.

*(iv) Other Income Arising from the Consideration Agreement*

The Group exercises critical judgment in determining whether each performance obligation stipulated in the Consideration Agreement entered into in 2018 with certain counterparties is satisfied over time or at a point in time [see Note 13.2(a)]. In making this judgment, the Group identified the two performance obligations from the Consideration Agreement as separate and distinct from one another with a corresponding consideration or transaction price specifically identified to each performance obligation, which is disclosed in [Notes 13.2(a) and 21.4]. Accordingly, the Group recognized other income in 2018 for the non-refundable portion of the consideration as it assessed that the first performance obligation has been satisfied at specific point in time in 2018 (see Note 21.4). On the other hand, the Group determined that the second performance obligation is to be satisfied over time since there are future actions that are required to be undertaken by the Group and its counterparties, which commences in January 2019 based on the Consideration Agreement.

*(b) Determining the Transaction Price and Amounts Allocated to Performance Obligations*

The transaction price for a contract is allocated amongst the material right and other performance obligations identified in the contract based on their stand-alone selling prices, which are all observable. The transaction price for a contract excludes any amounts collected on behalf of third parties (i.e., VAT).

The Company uses the practice expedient in PFRS 15 with respect to non-adjustment of the promised amount of consideration for the effects of significant financing component as the Group expects, at contract inception, that the period between the Group transfers promised assets or services to the customer and payment due date is one year or less. With respect to real estate transactions, the Group deferred the adoption of PIC 2018-12 with respect to the accounting for the significant financing component in a contract to sell.

*(c) Determining the ECL Model on Receivables and Contract Asset*

The Group uses a provision matrix to calculate ECL for receivables and contract asset. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and, customer type and rating).

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). Management determined that there is no required ECL to be recognized on its Contract Asset account since the condominium units sold is collateralized to the related contract asset arising from the sale. Therefore, there is no expected loss given default as the recoverable amount from the subsequent re-sell of the condominium units is sufficient. Details about the ECL on the Group's receivables and contract asset are disclosed in Note 5.2(b).

*(d) Distinguishing Investment Properties and Owner-managed Properties*

The Group determines whether a property qualifies as an investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the performance of the Group's construction and other activities, and its supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the construction and supply of goods and services or 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 use in the construction or supply of goods or services or 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) Distinguishing Land and Land Development Costs and Investment Properties*

The Group's management identifies a property as Land and Land Development Costs (property to be developed and/or eventually sold in the normal course of business) or Investment Properties (properties intended to earn rentals, capital appreciation or held for a currently undetermined future use) at the end of each reporting period following the approved plan of the Group.

As of December 31, 2018 and 2017, parcels of land identified as Land and Land Development Costs amounted to P2,162.2 million and P1,954.4 million, respectively (see Note 11).

Parcels of land, classified as Investment Properties, amounted to P8,720.2 million as of December 31, 2018 and 2017, respectively (see Note 15).

The Group reclassified certain parcels of land which were previously presented under Land and Land Development Costs to Investment Properties amounting to P54.7 million in 2017, which resulted from change in management intention to hold the related land for rental purposes (see Notes 11 and 15).

*(f) Distinguishing Operating and Finance Leases*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or 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. Management has assessed that all of its existing lease arrangements as a lessor at the end of each reporting period qualify under operating lease.

*(g) Determining Capitalization of Borrowing Costs*

The Group determines whether borrowing costs qualify for capitalization as part of the cost of the qualifying asset, or expensed outright. The accounting treatment for the borrowing costs is determined by assessing whether the asset is a qualifying asset taking into consideration the period of time to get the asset ready for its intended use. Failure to make the right judgment will result in misstatement of assets and net profit (see Notes 15 and 17).

*(h) Evaluating Recognition of Provisions and Contingencies*

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

*(i) Determining Joint Control in an Arrangement and Significant Influence over an Investee*

Judgment is exercised in determining whether the Group has joint control of an arrangement or significant influence over an entity. In assessing the Group's interest in an arrangement or influence over an entity, the Group considers voting rights, representation on the BOD or equivalent governing body of the investee, participation in policy-making process and all other facts and circumstances, including the terms of any contractual arrangement.

*(j) Distinguishing between Business Combination and Asset Acquisition*

The Group determines whether an acquisition of an entity constitutes a business combination or an asset acquisition. The accounting treatment for the acquisition is determined by assessing whether the transaction involved a purchase of a business taking into consideration the substance of the transaction. Failure to make the right judgment will result in misstatement of assets and other accounts that could have been affected by the transaction.

Although the Group purchased shares of stock resulting in full equity ownership interest in Reine in 2016, the Group has assessed that under PFRS 3, the acquisition is to be accounted for as an asset acquisition since it does not constitute a purchase of a "business" (see Notes 1.2, 2.17 and 13.4). On the other hand, the Group accounted for its acquisition of ARESM in 2016 as a business combination under PFRS 3 since it represents a purchase of a "business" (see Note 27.5).

*(k) Evaluating Principal Versus Agent Consideration*

The Group exercises judgment to determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the Group is a principal) or to arrange for the other party to provide those goods or services (i.e., the Group is an agent). Failure to make the right judgment will result in misstatement of revenues and expenses accounts. The Group assessed that it is only acting as an agent for utility transactions of its tenants under operating leases. The amount of utility revenues and utility expenses, which were set-off against each other amounted to P104.1 million, P66.2 million and P55.6 million in 2018, 2017, 2016, respectively, in the consolidated statements of profit or loss (see Note 27.5).

### *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) Estimating Useful Lives of Property and Equipment and Investment Properties*

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

The carrying amounts of property and equipment and investment properties are analyzed in Notes 14 and 15, respectively. Based on management's assessment, there is no change in the estimated useful lives of property and equipment and investment properties in 2018 and 2017. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(b) Determining Net Realizable Value of Land and Land Development Costs*

In determining the net realizable value of land and land development costs, management takes into account the most reliable evidence such as the comparable price of recent sale of adjacent properties and appraisal of the asset available at the time the estimate is made. Changes in the sources of estimation may cause significant adjustments to the carrying amount of the Group's land and land development costs within the next reporting period.

As indicated in Note 11, management assessed that the net realizable values of its land and land development costs is higher than its cost; hence, those assets are carried at cost as of the end of the reporting periods.

*(c) Determining Net Realizable Value of Property Development Costs*

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

As more fully discussed in Note 10, management assessed that the net realizable values of its property development costs is higher than its cost; hence, those assets are carried at cost as of the end of the reporting periods.

(d) *Determining Principal Assumptions for Management's Estimation of Fair Value of Investment Properties*

Investment properties are measured using the cost model. In determining the fair value of these assets, the Group engaged the services of professional and independent appraisers applying the relevant valuation methodologies. The fair value disclosed in the consolidated financial statements is determined using the:

- Market approach for land based on information on current or recent transaction prices for 2018 and 2017; and,

- Cost approach based on consideration of the cost to reproduce or replace the buildings and improvements to its service capacity in accordance with current market prices for similar assets less depreciation for 2018 and 2017.

The Group determined that the cost approach for buildings and improvements more appropriately reflects the highest and best use of the property based on market conditions and development. The Group consistently uses assumptions that are mainly based on market conditions existing at the end of each reporting period. For the valuation methodologies adopted prior to December 31, 2018, management determined that there were no significant circumstances that may affect the fair value determination of investment properties.

The fair values of investment properties as of December 31, 2018 and 2017 are disclosed in Note 15 while the relevant valuation methodology and fair value hierarchy are disclosed in Note 7.4.

(e) *Estimating Probability of Collection for Revenue Recognition*

The Group exercises judgment in evaluating the probability of collection (as one of the gating criteria) of transaction price on customer or counterparty contracts wherein revenue is recognized over time or specific point in time. The Group uses historical payment pattern of customers and counterparties in establishing a percentage of collection threshold, or in some instances, when the Group is certain that the sale or contract will not be cancelled (i.e., considering financial capacity, credit worthiness, and business interests of the customer or counterparty) even if the collection is below such threshold but which the Group determines that collection of the transaction price is reasonably assured.

The percentage benchmark used by the Group in determining whether collection of the transaction price is reasonably assured is 20% collection of the total contract price for sale of condominium units and 25% collection of the total contract price for sale of raw land. Management believes that the established collection thresholds are appropriate based on the collection history and credit worthiness of customers in each revenue segment. Buyer's interest in the property (i.e., condominium unit or raw land) is considered to have vested when the payment of the applicable percentage benchmark of the contract price has been received from the buyer and the Group has ascertained the buyer's commitment and ability to complete the payment of the total contract price.

The related revenues recognized by the Group are presented as Construction contracts, Sale of condominium units and Land sales under the Revenues account in the consolidated statements of profit or loss while the related other income arising from the Consideration Agreement is presented as part of Other Income account in the 2018 consolidated statement of profit or loss.

*(f)* *Determining Percentage-of-Completion for Real Estate Transactions*

In determining the amount of revenue to be recognized for real estate transactions involving sale of condominium units wherein performance obligations are satisfied over time, the Group measures progress based on the input method that measures the percentage of total costs incurred to date over the estimated costs to complete the projects. 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 applies 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.

The Group recognized revenues from sale of condominium units amounting to P119.4 million, P47.1 million and P0.7 million in 2018, 2017, and 2016, respectively, and is presented as Sale of condominium units under Revenues account in the consolidated statements of profit or loss.

*(g)* *Determining Percentage-of-Completion for Construction Contracts*

The Group also recognizes its revenue from construction contracts based on percentage-of-completion method of the project whereby the performance obligations are satisfied over time. The Group's application of the percentage-of-completion method is based on its efforts or inputs (i.e., actual costs incurred) to the satisfaction of a performance obligation relative to the total expected construction costs. Review of the benchmarks set by management necessary for the determination of percentage-of-completion is done regularly. Actual data is being compared to the related benchmarks and critical judgment is exercised to assess the reliability of the percentage of completion procedures which are currently in place and make the necessary revisions in the light of current progress.

*(h)* *Determining the Amount of Costs Incurred to Obtain or Fulfill a Contract with Customers*

In determining the amount of costs to obtain a contract that should be capitalized, the Group identifies those costs that would have not been incurred if the contract had not been obtained. The carrying amounts, net of subsequent amortization, of costs incurred to obtain the contracts with customers (or counterparties) relating to the sale of condominium units, and the Consideration Agreement are presented as part of Contract acquisition costs under Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 12 and 16).

For the costs incurred in fulfilling a contract, the Group recognizes an asset only if: those costs related directly to a contract or to an anticipated contract can be specifically identified; those costs generate or enhance the Group's resources that will be used in satisfying performance obligation in the future; and, the Group expects those costs to be recovered. There were no recognized assets arising from costs incurred in fulfilling the contracts during the reporting periods as the Group accounted for such costs in accordance with accounting policies related to other financial reporting standards as disclosed in Note 2.16.

*(i) Estimating Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 5.2(b).

Based on management's assessment, the outstanding balances of receivables, net of outstanding allowance, and contract asset as of December 31, 2018 and 2017 are fully collectible (see Notes 9 and 10).

*(j) Determining the Fair Value of Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Group's financial assets at FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Note 16.2.

*(k) Determining 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 assets to be utilized.

Management assessed that the deferred tax assets as of December 31, 2018 and 2017, will be fully utilized as it is expecting sufficient taxable profits against which the deferred tax assets can be applied (see Note 24).

*(l)* *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.21). 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 those 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.

Based on management's evaluation, there is no impairment losses required to be recognized on the Group's non-financial assets in 2018, 2017 and 2016.

*(m)* *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 the actuary in calculating such amounts. Those assumptions are described in Note 23.2 and include, among others, discount rates and expected rate of salary increases. 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 post-employment benefit obligation in the next reporting period.

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

## 4. SEGMENT REPORTING

### *4.1 Business Segments*

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

*(a)* *Construction* – principally refers to general construction business which involves site development, earthworks, structural and civil works, masonry works, architectural finishes, electrical works, plumbing and sanitary works, fire protection works and mechanical works.

*(b)* *Sale of Land and Condominium Units* – involve the development and sale of industrial and other parcels of land and residential condominium units.

*(c)* *Rentals* – refers to leasing of real estate properties, including land and building and other structures.

The Group has not identified any segment based on geographical location (see Note 4.4).

### *4.2 Segment Assets and Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash, receivables, contract asset, land and land development cost, property development costs, property and equipment, and investment properties. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of loans and borrowings, trade and other payables, contract liability and deposits and advances. Segment assets and liabilities do not include deferred taxes.

### *4.3 Intersegment Transactions*

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

### *4.4 Analysis of Segment Information*

Segment information is analyzed as follows for the years ended December 31, 2018 and, 2017 and 2016 (as restated – see Note 27.5) (in thousands):

| | Rentals | | | Construction | | | Sale of Land and Condominium Units | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| **REVENUES** | | | | | | | | | | | | |
| Sales to external customers | **P 1,901,199** | P 1,440,807 | P 1,271,046 | **P 130,524** | P 202,133 | P 231,164 | **P 120,604** | P 1,135,407 | P 601,341 | **P 2,152,327** | P 2,778,347 | P 2,103,551 |
| Intersegment sales | **285,468** | 153,091 | 152,274 | **396,965** | 751,116 | - | **-** | - | - | **682,433** | 904,207 | 152,274 |
| Total revenues | **2,186,667** | 1,593,898 | 1,423,320 | **527,489** | 953,249 | 231,164 | **120,604** | 1,135,407 | 601,341 | **2,834,760** | 3,682,554 | 2,255,825 |
| **COSTS AND OTHER OPERATING EXPENSES** | | | | | | | | | | | | |
| Cost of sales and services excluding depreciation and amortization | **109,176** | 70,284 | 68,028 | **47,044** | 124,513 | 187,487 | **72,916** | 171,853 | 120,821 | **229,136** | 366,650 | 376,336 |
| Depreciation and amortization | **103,185** | 65,465 | 62,059 | **14,464** | 7,721 | 14,467 | **-** | - | - | **117,649** | 73,186 | 76,526 |
| Other expenses | **164,806** | 117,733 | 118,980 | **4,526** | 5,148 | 3,415 | **25,528** | 63,658 | 18,789 | **194,860** | 186,539 | 141,184 |
| | **377,167** | 253,482 | 249,067 | **66,034** | 137,382 | 205,369 | **98,444** | 235,511 | 139,610 | **541,645** | 626,375 | 594,046 |
| **SEGMENT OPERATING PROFIT** | **P 1,809,500** | P 1,340,416 | P 1,174,253 | **P 461,455** | P 815,867 | P 25,795 | **P 22,160** | P 899,896 | P 461,731 | **P 2,293,115** | P 3,056,179 | P 1,661,779 |

Segment assets and liabilities are allocated to each segment as follows (in thousands) (as restated – see Note 27.5):

| | Rentals | | Construction | | Sale of Land and Condominium Units | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Total Assets | Total Liabilities | Total Assets | Total Liabilities | Total Assets | Total Liabilities | Total Assets | Total Liabilities |
| **December 31, 2018** | **P 19,901,718** | **P 9,431,032** | **P 5,522,104** | **P 968,503** | **P 3,579,441** | **P 969,592** | **P 29,003,263** | **P 11,369,127** |
| December 31, 2017 | 14,876,544 | 9,178,722 | 2,958,038 | 967,787 | 3,071,967 | 982,639 | 20,906,549 | 11,129,148 |

Currently, the Group's operation is concentrated in one location; hence, it has no geographical segment (see Note 4.1).

In 2018, rental revenues from a single lessee account for 34.96% of the consolidated revenues. In 2017, rental revenues from a single lessee and sale of land from two customers account for 25.21% and 36.11% of the consolidated revenues, respectively, while in 2016, 60.42% of consolidated revenues pertained to rental revenues, construction revenues and sale of land from three major customers.

Rentals segment assets include certain real estate assets (i.e., parcels of land) held as investment properties for capital appreciation or future lease.

### *4.5 Reconciliations*

The total segment balances presented for the Group's operating segments reconciled to the Group's consolidated balances as presented in the consolidated financial statements are as follows (in thousands):

| | **2018** | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|
| **Revenues** | | | |
| Total segment revenues | **P 2,834,760** | P 3,682,554 | P 2,255,825 |
| Elimination of intersegment revenues | **( 682,433)** | ( 904,207) | ( 152,274) |
| Revenues as reported in the consolidated statements of profit or loss | **P 2,152,327** | P 2,778,347 | P 2,103,551 |
| **Profit or loss** | | | |
| Segment operating profit | **P 2,293,115** | P 3,056,179 | P 1,661,779 |
| Elimination of intersegment revenues | **( 682,433)** | ( 904,207) | ( 152,274) |
| Other unallocated operating income (expenses)* – net | **( 238,346)** | ( 6,474) | 214,548 |
| Operating profit as reported in the consolidated statements of profit or loss | **1,372,336** | 2,158,446 | 1,724,053 |
| Finance costs | **( 69,852)** | ( 72,107) | ( 83,791) |
| Finance income | **69,523** | 7,163 | 3,961 |
| Share in net earnings (losses) of associates and joint ventures | **6,308** | ( 993) | ( 5,298) |
| Other unallocated income* | **1,200,000** | - | 7,110 |
| Profit before tax as reported in the consolidated statements of profit or loss | **P 2,578,315** | P 2,092,509 | P 1,646,035 |

* *Other unallocated operating income includes gain on sale of investment properties in 2017 and 2016 while other unallocated income includes the income from the Consideration Agreement in 2018.*

| | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|
| **Assets** | | |
| Segment assets | **P 29,003,263** | P 20,906,549 |
| Deferred tax assets – net | **47,942** | 22,357 |
| Other unallocated assets** | **6,781,660** | 3,582,078 |
| Elimination of intercompany accounts | **( 6,044,149)** | ( 4,137,148) |
| Total assets reported in consolidated statements of financial position | **P 29,788,716** | P 20,373,836 |
| **Liabilities** | | |
| Segment liabilities | **P 11,369,127** | P 11,129,148 |
| Deferred tax liabilities – net | **720,977** | 496,168 |
| Other unallocated liabilities** | **1,260,317** | 1,254,070 |
| Elimination of intercompany accounts | **( 2,427,684)** | ( 1,824,499) |
| Total liabilities as reported in consolidated statements of financial position | **P 10,922,737** | P 11,054,887 |

***Other unallocated assets and liabilities mostly pertain to intercompany advances to and/or from related parties not eliminated in the consolidation.*

### *4.6 Disaggregation of Revenue from Contracts with Customers and Other Counterparties*

When the Group prepares its investor presentations and when the Group's Executive Committee evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment reporting as presented in Notes 4.1 and 4.4.

The Group determines that the categories used in the investor presentations and financial reports used by the Group's Executive Committee can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers and other counterparties (except for rentals accounted for under PAS 17 and disclosed herein as additional information) into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A summary of additional disaggregation from the segment revenues and other unallocated income are shown in the succeeding page.

| | Segment Revenues (Sales to External Customers) | | | | Other Unallocated Income | | |
|---|---|---|---|---|---|---|---|
| | Rentals | Construction | Sale of land | Sale of condominium units | Consideration Agreement | Rendering of administrative services | Total |
| ***December 31, 2018:*** | | | | | | | |
| Lease | P1,901,198,613 | P - | P - | P - | P - | P - | P1,901,198,613 |
| Over time | - | 130,524,057 | - | 119,351,066 | - | 37,019,684 | 286,894,807 |
| Point in time | - | - | 1,252,800 | - | 1,200,000,000 | - | 1,201,252,800 |
| Short-term | - | 130,524,057 | 1,252,800 | - | 1,200,000,000 | 21,843,107 | 1,353,619,964 |
| Long-term | 1,901,198,613 | - | - | 119,351,066 | - | - | 2,020,549,679 |
| *December 31, 2017:* | | | | | | | |
| Lease | P1,440,806,866 | P - | P - | P - | P - | P - | P1,440,806,866 |
| Over time | - | 202,132,945 | - | 47,116,581 | - | 24,472,468 | 273,721,994 |
| Point in time | - | - | 1,088,290,000 | - | - | - | 1,088,290,000 |
| Short-term | - | 202,132,945 | 1,088,290,000 | - | - | 24,472,468 | 1,314,895,413 |
| Long-term | 1,440,806,866 | - | - | 47,116,581 | - | - | 1,487,923,447 |
| *December 31, 2016:* | | | | | | | |
| Lease | P1,271,046,494 | P - | P - | P - | P - | P - | P1,271,046,494 |
| Over time | - | 231,163,640 | - | 684,636 | - | 25,252,110 | 257,100,386 |
| Point in time | - | - | 600,656,000 | - | - | - | 600,656,000 |
| Short-term | - | 231,163,640 | 600,656,000 | - | - | 25,252,110 | 857,071,750 |
| Long-term | 1,271,046,494 | - | - | 684,636 | - | - | 1,271,731,130 |

Additional information not included above is the gain on sale of investment property in 2017 and 2016, which is recognized at a point in time, and other income aggregating to P72.5 million, P11.4 million, and P30.6 million in 2018, 2017 and 2016, respectively, that are considered by management insignificant to the Group's disaggregation information of revenues (see Note 21.3).

## 5. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 6. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its Ultimate Parent Company, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Group is exposed to are described as follows:

### *5.1 Market Risk*

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from its operating and financing activities.

*(a) Foreign Currency Risk*

Most of the Group's transactions are carried out in Philippine peso, its functional currency. The Group also holds United States (U.S.) dollar and European Union (Euro) denominated cash and cash equivalents. The Group does not have any financial liabilities denominated in foreign currency.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency denominated financial assets, translated into Philippine peso at the closing rate, are as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **U.S. Dollar** | **Euro** | U.S. Dollar | Euro |
| Financial assets | **P 30,885,030** | **P 9,322,435** | P 12,615,026 | P 7,714,442 |

The following table illustrates the sensitivity of the Group's profit before tax and equity in 2018 and 2017 with respect to changes in the exchange rates of Philippine peso against foreign currencies. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months prior to the end of the reporting period at a 99% confidence level.

| | **2018** | | |
|---|---|---|---|
| | **Reasonably possible change in rate** | **Effect in profit before tax** | **Effect in equity** |
| U.S. Dollar | **+/-11.16%** | **P 3,446,769** | **P 2,412,738** |
| Euro | **+/-23.98%** | **2,235,520** | **1,564,864** |
| Total | | **P 5,682,289** | **P 3,977,602** |

| | 2017 | | |
|---|---|---|---|
| | Reasonably possible change in rate | Effect in profit before tax | Effect in equity |
| U.S. Dollar | +/-10.88% | P 1,372,515 | P 1,269,578 |
| Euro | +/-27.30% | 2,106,043 | 1,948,090 |
| Total | | P 3,478,558 | P 3,217,668 |

If the Philippine peso had strengthened against the U.S. dollar and Euro, with all other variables held constant, the Group's profit before tax and equity would have been lower by P5.7 million and P4.0 million, respectively, in 2018 and P3.5 million and P3.2 million, respectively, in 2017. Conversely, if the Philippine peso had weakened against the U.S. dollar and Euro by the same percentage, with all variables held constant, profit before tax and equity would have been higher in 2018 and 2017 by the same amount.

Exposures to foreign exchange rates vary during the period depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be a reasonable estimation of the Group's currency risk.

*(b) Interest Rate Risk*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. As at December 31, 2018 and 2017, the Group is exposed to changes in market interest rates affecting the cash flows from cash and cash equivalents and certain interest-bearing loans and borrowings which are subject to variable interest rates (see Notes 8 and 17). All other financial assets and financial liabilities have fixed rates or are noninterest-bearing.

Interest-bearing loans and borrowings and cash and cash equivalents which are subject to repricing are tested on a reasonably possible change (weighted average) of +/-2.05% and +/-0.54% Philippine peso in 2018 and 2017, respectively. On the other hand, the Group's exposure to foreign currency interest rate is insignificant. The percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with the effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P161.1 million and +/-P7.7 million in 2018 and 2017, respectively.

### *5.2 Credit Risk*

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, arising from granting loans and receivables to customers, including related parties, and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of revenues, advance payments are received to mitigate credit risk.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position and in the detailed analysis provided in the notes to the consolidated financial statements, as summarized below.

| | Notes | **2018** | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Cash and cash equivalents | 8 | **P 7,549,219,648** | P1,444,538,812 |
| Short-term placement *(presented as part of Other Current Assets)* | 12 | **1,400,000,000** | - |
| Receivables – net *(except for Advances to suppliers)* | 9 | **4,665,569,544** | 3,925,399,205 |
| Contract asset | 10 | **166,652,337** | 47,301,272 |
| Refundable deposits *(presented as part of Other Non-current Assets)* | 16 | **52,254,083** | 18,997,481 |
| | | **P13,833,695,612** | P5,436,236,770 |

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

*(a) Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in cash and cash equivalents are cash in banks which is secured by a maximum coverage of P0.5 million for every depositor per banking institution, as provided for under R.A. No. 9302, *Charter of Philippine Deposit Insurance Corporation*, which is also subjected to credit risk.

*(b) Receivables and Contract Asset*

The Group applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables and contact asset.

To measure the expected credit losses, trade and other receivables and contract asset have been grouped based on shared credit risk characteristics and the days past due (age buckets). The other receivables relate to receivables from both third and related parties other than trade receivables and have substantially the same risk characteristics as the trade receivables. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other receivables.

The expected loss rates are based on the payment profiles of revenues over a period of 36 months before December 31, 2018 and 2017, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the interest rate and gross domestic product to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31, 2018 and 2017 was determined based on months past due, as follows for both trade and other receivables:

| | 0-30 days | 31-60 days | 61-90 days | Over 90 days |
|---|---|---|---|---|
| **December 31, 2018** | | | | |
| *Expected credit loss rate* | *0.10%* | *7.75%* | *12.79%* | *52.96%* |
| Rental and other receivables | P 147,652,284 | P 3,121,941 | P 2,167,224 | P 18,618,886 |
| Loss allowance | 146,776 | 241,969 | 277,137 | 9,859,826 |
| *Expected credit loss rate* | - | - | - | *0.24%* |
| Contract and retention receivables | P 4,321,169 | P 1,009,523 | P 895,805 | P 668,649,388 |
| Loss allowance | - | - | - | 1,629,692 |
| *Expected credit loss rate* | - | - | - | *5.62%* |
| Advances to related parties | P 21,177,992 | P 13,232,599 | P 5,383,897 | P 748,528,198 |
| Loss allowance | - | - | - | 42,102,006 |

December 31, 2017

| | | | | |
|---|---|---|---|---|
| *Expected credit loss rate* | *0.26%* | *12.06%* | *18.75%* | *14.08%* |
| Rental and other receivables | P 80,940,785 | P 638,438 | P 243,106 | P 16,582,606 |
| Loss allowance | 208,377 | 76,980 | 45,590 | 2,334,901 |
| *Expected credit loss rate* | - | - | - | *0.24%* |
| Contract and retention receivables | P 62,002,071 | P 11,995,679 | P 1,653,453 | P 668,632,201 |
| Loss allowance | - | - | - | 1,571,691 |
| *Expected credit loss rate* | - | - | - | *6.15%* |
| Advances to related parties | P 24,301,322 | P 17,529,406 | P 7,600,330 | P 677,651,741 |
| Loss allowance | - | - | - | 41,674,688 |

A reconciliation of the allowance for impairment for trade and other receivables as at December 31, 2018 and 2017 is presented below (see Note 9):

| | **December 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Trade and other receivables*** | **Advances to related parties** | Trade and other receivables* | Advances to related parties |
| Balance at beginning of year | **P 4,237,539** | **P 41,674,668** | P 3,692,225 | P 41,187,765 |
| Additional ECL | **7,917,861** | **427,338** | 545,314 | 486,903 |
| Balance at end of year | **P 12,155,400** | **P 42,102,006** | P 4,237,539 | P 41,674,668 |

**Excluding advances to related parties*

The Group identifies a default when the receivables become credit impaired or when the customer has not able to settle the receivables beyond the normal credit terms of 45 to 90 days, depending on the terms with the customers; hence, these receivables were already considered as past due on its contractual payment. In addition, the Group considers qualitative assessment in determining default such as in instances where the customer is unlikely to pay its obligations and is deemed to be in significant financial difficulty.

Large portion of the Group's receivables pertains to rental receivables from leasing operations to third parties, advances to related parties which are secured by an undertaking of another related party to pay in case of default, and contract receivables from the Philippine Reclamation Authority (PRA) related to various implementing agreements under the memorandum of agreement entered into by the Group in relation to the reclamation and development of Aseana Business Park (ABP), which is also part of the Aseana City (see Notes 9.1, 9.2, 9.3 and 9.4). Except for rental receivables from various and diversified profile of third party tenants, this makes the Group exposed to significant credit risk exposure to a single group of counterparties having similar characteristics.

On July 15, 2015, the PRA's BOD approved the conveyance of certain properties to the Group in settlement of PRA's liabilities related to various implementing agreements entered into with the Group. As of December 31, 2018, the title to the properties are not yet transferred to the Group.

The Contract Asset account is secured to the extent of the fair value of the condominium units sold since the title to the real estate properties remains with the Company until the contract assets or receivables are fully collected. Therefore, there is no expected loss given default on the contract asset.

With respect to refundable deposits, management assessed that these financial assets have low probability of default since these relate to reputable power and water distribution companies (i.e., with high quality external credit ratings) that sustain the operation of Aseana City and other related projects.

### *5.3 Liquidity Risk*

Liquidity risk is the risk that cash may not be available to meet operating requirements and to pay obligations when due at a reasonable cost. Prudent liquidity risk management requires maintaining sufficient cash and credit facilities at reasonable cost to satisfy current requirements whenever the need arises. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

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 basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for six-month and one-year periods are identified monthly.

As of December 31, 2018 and 2017, the Group's financial liabilities have contractual maturities as follows:

| | | Current | | Non-current |
|---|---|---|---|---|
| | Notes | Upon Demand/ Within 6 months | 6 to 12 Months | 1 to 5 Years |
| **December 31, 2018** | | | | |
| Loans and borrowings | 17 | P 1,396,348,592 | P 70,100,644 | P 568,615,500 |
| Trade and other payables (*except tax liabilities)* | 18 | 501,113,930 | 227,034,296 | - |
| Advances from a co-joint venturer | 13.2 | 1,000,000,000 | - | - |
| Advances from and due to related parties | 25.2 | 4,611,174,814 | - | - |
| Rental deposits | 19 | - | 54,400,070 | 182,589,901 |
| Construction bond | 19 | - | 47,566,440 | - |
| | | P 7,508,637,336 | P 399,101,450 | P 751,205,401 |

| | Notes | Current Upon Demand/ Within 6 months | Current 6 to 12 Months | Non-current 1 to 5 Years |
|---|---|---|---|---|
| December 31, 2017 (As Restated – see Note 27.5) | | | | |
| Loans and borrowings | 17 | P 1,706,297,957 | P 45,153,827 | P 881,407,063 |
| Trade and other payables (*except tax liabilities)* | 18 | 752,013,568 | 209,920,471 | - |
| Advances from a co-joint venturer | 13.2 | 1,000,000,000 | - | - |
| Advances from and due to related parties | 25.2 | 4,656,057,252 | - | - |
| Rental deposits | 19 | - | 88,498,491 | 116,756,462 |
| Construction bond | 19 | - | 14,101,059 | - |
| | | P 8,114,368,777 | P 357,673,848 | P 998,163,525 |

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the financial liabilities at the end of the reporting periods.

## 6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *6.1 Carrying Values and Fair Values by Category*

The carrying values and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

| | Notes | **2018 Carrying Values** | **2018 Fair Values** | 2017 (As Restated – see Note 27.5) Carrying Values | 2017 (As Restated – see Note 27.5) Fair Values |
|---|---|---|---|---|---|
| ***Financial Assets*** | | | | | |
| *At amortized cost:* | | | | | |
| Cash and cash equivalents | 8 | **P 7,549,219,648** | **P 7,549,219,648** | P 1,444,538,812 | P 1,444,538,812 |
| Short-term placement *(presented as part of Other Current Assets)* | 12 | **1,400,000,000** | **1,400,000,000** | | |
| Receivables – net | 9 | **4,665,569,544** | **4,665,569,544** | 3,925,399,205 | 3,925,399,205 |
| Contract asset | 10 | **166,652,337** | **166,652,337** | 47,301,272 | 47,301,272 |
| Refundable deposits *(presented as part of Other Non-current assets)* | | **52,254,083** | **52,254,083** | 18,997,481 | 18,997,481 |
| | | **13,833,695,612** | **13,833,695,612** | 5,436,236,770 | 5,436,236,770 |
| *Financial assets at FVOCI* | 16.2 | **74,755,905** | **74,755,905** | 74,536,260 | 74,536,260 |
| | | **P13,908,451,517** | **P13,908,451,517** | P 5,510,773,030 | P 5,510,773,030 |

| | Notes | 2018 Carrying Values | 2018 Fair Values | 2017 (As Restated – see Note 27.5) Carrying Values | 2017 (As Restated – see Note 27.5) Fair Values |
|---|---|---|---|---|---|
| ***Financial Liabilities*** | | | | | |
| *At amortized cost:* | | | | | |
| Loans and borrowings | 17 | **P 1,928,920,000** | **P 1,896,659,323** | P 2,476,902,945 | P 2,432,942,006 |
| Trade and other payables | 18 | **728,148,226** | **728,148,226** | 961,934,039 | 961,934,039 |
| Advances from and due to related parties | 25.2 | **4,611,174,814** | **4,611,174,814** | 4,656,057,252 | 4,656,057,252 |
| Advances from a co-joint venturer | 13.2 | **1,000,000,000** | **1,000,000,000** | 1,000,000,000 | 1,000,000,000 |
| Rental deposits | 19 | **236,989,971** | **236,989,971** | 205,254,953 | 205,254,953 |
| Construction bond | 19 | **47,566,440** | **47,566,440** | 14,101,059 | 14,101,059 |
| | | **P 8,552,799,451** | **P 8,520,538,774** | P 9,314,250,248 | P 9,270,289,309 |

See Notes 2.4 and 2.10 for a description of the accounting policies for financial assets and financial liabilities, respectively, including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 5.

### *6.2 Offsetting of Financial Assets and Financial Liabilities*

The Group has not set-off financial instruments as of December 31, 2018 and 2017 and it does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) may have the option to settle all such amounts on a net basis in the event of default of the other party through approval of both parties' BODs and stockholders or upon instruction by the Ultimate Parent Company.

The following financial assets presented as part of Advances to related parties under Receivables account in the consolidated statements of financial position can be offset by the amount of outstanding Advances from and Due to a Related Parties account:

| | Notes | Gross amounts recognized in the consolidated statements of financial position | Related amounts not set off in the consolidated statements of financial position | Net amount |
|---|---|---|---|---|
| Advances to related parties: | 25.1 | | | |
| **December 31, 2018** | | **P 788,322,686** | **(P 430,355,411)** | **P 357,967,275** |
| December 31, 2017 | | 727,082,799 | ( 400,425,054) | 326,657,745 |
| Advances from and due to related parties: | 25.2 | | | |
| **December 31, 2018** | | **P 4,611,174,814** | **(P 430,355,411)** | **P 4,180,819,403** |
| December 31, 2017 | | 4,656,057,252 | ( 400,425,054) | 4,225,632,198 |

## 7. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *7.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which an asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which does not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

### *7.2 Financial Instruments Measurement at Fair Value*

The Group's financial assets at FVOCI include proprietary golf club shares, which are categorized within Level 2 as their prices are not derived from market considered as active due to lack of regular trading activities among market participants at the end or close to the end of the reporting period. Moreover, equity security held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured using the market approach by reference to the fair value of a comparable instrument adjusted for inputs (i.e., financial forecast of cash flows or profit or loss) internally developed by management to consider the differences in corporate profile and historical performance of the entity. As of December 31, 2018 and 2017, the Group's financial assets at FVOCI measured at fair value amounted to P74.8 million and P74.5 million, respectively (see Note 16.2).

The Group has no financial liabilities measured at fair value as of December 31, 2018 and 2017.

There were neither transfers between Levels 1 and 2 nor changes in the carrying amount of Level 3 instruments in both years.

### 7.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

| | | December 31, 2018 | | | |
|---|---|---|---|---|---|
| | Notes | Level 1 | Level 2 | Level 3 | Total |
| ***Financial Assets*** | | | | | |
| Cash and cash equivalents | 8 | P 7,549,219,648 | P - | P - | P 7,549,219,648 |
| Short-term placement *(presented as part of Other Current Assets)* | 12 | 1,400,000,000 | - | - | 1,400,000,000 |
| Receivables – net | 9 | - | - | 4,665,569,544 | 4,665,569,544 |
| Contract asset | 10 | - | - | 166,652,337 | 166,652,337 |
| Refundable deposits *(presented as part of Other Non-current Assets)* | 16 | - | - | 52,254,083 | 52,254,083 |
| | | **P 8,949,219,648** | **P -** | **P 4,884,475,964** | **P 13,833,695,612** |
| ***Financial Liabilities*** | | | | | |
| Loans and borrowings | 17 | P - | P - | P 1,896,659,323 | P 1,896,659,323 |
| Trade and other payables | 18 | - | - | 728,148,226 | 728,148,226 |
| Advances from and due to related parties | 25.2 | - | - | 4,611,174,814 | 4,611,174,814 |
| Advances from a co-joint venturer | 13.2 | - | - | 1,000,000,000 | 1,000,000,000 |
| Rental deposits | 19 | - | - | 236,989,971 | 236,989,971 |
| Construction bond | 19 | - | - | 47,566,440 | 47,566,440 |
| | | **P -** | **P -** | **P 8,520,538,774** | **P 8,520,538,774** |

| | Notes | December 31, 2017 (As Restated – see Note 27.5) Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| *Financial Assets* | | | | | |
| Cash and cash equivalents | 8 | P 1,444,538,812 | P - | P - | P 1,444,538,812 |
| Receivables – net | 9 | - | - | 3,925,399,205 | 3,925,399,205 |
| Contract asset | 10 | - | - | 47,301,272 | 47,301,272 |
| Refundable deposits *(presented as part of Other Non-current Assets)* | 16 | - | - | 18,997,481 | 18,997,481 |
| | | P 1,444,538,812 | P - | P 3,991,697,958 | P 5,436,236,770 |
| *Financial Liabilities* | | | | | |
| Loans and borrowings | 17 | P - | P - | P 2,432,942,006 | P 2,432,942,006 |
| Trade and other payables | 18 | - | - | 961,934,039 | 961,934,039 |
| Advances from and due to related parties | 25.2 | - | - | 4,656,057,252 | 4,656,057,252 |
| Advances from a co-joint venturer | 13.2 | - | - | 1,000,000,000 | 1,000,000,000 |
| Rental deposits | 19 | - | - | 205,254,953 | 205,254,953 |
| Construction bond | 19 | - | - | 14,101,059 | 14,101,059 |
| | | P - | P - | P 9,270,289,309 | P 9,270,289,309 |

The fair values of financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability base of the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

## *7.4 Fair Value Disclosures for Investment Properties Carried at Cost*

The table below shows the levels within the hierarchy of non-financial assets that are not measured at fair value but for which fair values are disclosed.

| | Note | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|---|
| **December 31, 2018** | | | | | |
| Land | | P - | P 96,656,221,177 | P - | P 96,656,221,177 |
| Buildings and improvements | | - | - | 4,332,113,063 | 4,332,113,063 |
| Construction in progress | | - | - | 40,754,389 | 40,754,389 |
| | 15 | **P -** | **P 96,656,221,177** | **P 4,372,867,452** | **P101,029,088,629** |
| December 31, 2017 | | | | | |
| Land | | P - | P 71,993,562,982 | P - | P 71,993,562,982 |
| Buildings and improvements | | - | - | 2,865,122,127 | 2,865,122,127 |
| Construction in progress | | - | - | 946,745,476 | 946,745,476 |
| | 15 | P - | P 71,993,562,982 | P 3,811,867,603 | P 75,805,430,585 |

The fair value of the Group's investment properties as of December 31, 2018 and 2017 are determined on the basis of the appraisals performed by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's investment properties is their current use.

The fair values of the Group's investment properties were determined based on the following approaches:

*(a) Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations as determined by an independent appraiser. Under this approach, when sales prices and/or actual sales transaction of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

The fair value is determined by the Group using the fair values of certain parcels of land adjacent to the location of the Group's investment. The fair value is based on the market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties.

*(b) Fair Value Measurement for Buildings and Improvements and Construction in Progress*

As of December 31, 2018 and 2017, the Level 3 fair value of the buildings and improvements was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties. Based on the foregoing inputs, the actual cost incurred to date recorded under Construction in Progress approximates its fair value.

## 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

| | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|
| Short-term placements | **P 4,238,295,198** | P 139,674,121 |
| Cash on hand and in banks | **3,310,924,450** | 1,304,864,691 |
| | **P 7,549,219,648** | P 1,444,538,812 |

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods of between 30 to 90 days and earn effective interest ranging from 4.80% to 6.90% per annum in 2018, 0.75% to 0.88% per annum in 2017 and 0.40% to 1.90% per annum in 2016. Interest income from cash in banks and short-term placements amounting to P54.9 million, P7.2 million and P3.0 million in 2018, 2017 and 2016, respectively, are included as part of Finance Income in the consolidated statements of profit or loss (see Note 21.2). Accrued interest from short-term placements is presented as part of Others under current Receivables account (see Note 9).

## 9. RECEIVABLES

This account is composed of the following:

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Current: | | | |
| Rental receivables | 9.1 | **P 698,167,326** | P 626,426,101 |
| Advances to: | 9.2 | | |
| Related parties | 25.1 | **788,322,686** | 727,082,799 |
| Suppliers | | **145,774,627** | 108,163,395 |
| Officers and employees | | **9,016,070** | 9,194,347 |
| Contracts receivables | 9.3, 25.4 | **665,049,553** | 690,680,730 |
| Retention receivables | 25.4 | **9,826,332** | 53,602,674 |
| Others | 8, 9.4, 12 | **60,618,706** | 54,634,557 |
| | | **2,376,775,300** | 2,269,784,603 |
| Allowance for impairment | 5.2(b) | **( 54,257,406)** | ( 45,912,207) |
| | | **2,322,517,894** | 2,223,872,396 |
| Non-current: | | | |
| Rental receivables | 9.1 | **2,488,826,277** | 1,809,690,204 |
| | | **P 4,811,344,171** | P 4,033,562,600 |

Receivables do not bear any interest. All receivables are subject to credit risk exposures (see Note 5.2).

### *9.1 Rental Receivables*

Rental receivables represent uncollected monthly receivables from third party tenants of the Group. This includes rent receivables arising from the application of PAS 17, which represent the difference between the cash basis rent income and the straight-line rent income of all outstanding lease contracts as of the end of the reporting periods. PAS 17 rent receivables amounted to P3,137.3 million and P2,420.5 million as of December 31, 2018 and 2017, respectively.

### *9.2 Advances*

Except for certain advances which are secured by an undertaking of another related party to pay in case of default, advances to related parties are unsecured, noninterest-bearing and are granted for working capital requirements. There are no definite repayment and settlement term on these advances.

Advances to suppliers pertain to mobilization funds provided to various suppliers for use primarily in the construction and development of the Group's residential condominium projects and investment properties (see Notes 10, 15 and 16), and are reduced proportionately upon receipt of progress billings from the said suppliers.

Advances to officers and employees are noninterest-bearing and collectible through salary deduction within 12 months from the end of the reporting period.

### *9.3 Contracts Receivables*

Contracts receivables are noninterest-bearing and usually due within 270 days. Of the total outstanding balance, P557.5 million is due from PRA as of December 31, 2018 and 2017. Management believes that these receivables are fully recoverable through collection of the accounts from customers, which is partially secured by construction bonds and whereby there is an outstanding balance of retention payable (see Notes 18 and 19). With respect to the amount due from PRA, the receivable is recoverable in full through transfer of certain properties owned by PRA to the Group (see Note 5.2).

### *9.4 Other Receivables*

Other receivables include amounts collectible for rendering of certain services incidental to the Group's leasing and real estate businesses.

## 10. PROPERTY DEVELOPMENT COSTS AND CONTRACT ACCOUNTS

### *10.1 Property Development Costs*

The Group capitalized certain costs as property development costs representing properties under development and construction. Costs incurred comprise of actual costs of land, construction and related engineering, architectural and other consultancy fees related to the development of residential condominium projects, namely, "Pixel Residences" and "MidPark Towers", both located in Aseana City, 1702 Parañaque City, Metro Manila.

In 2017, the title of land under the development was transferred to the Group (see Note 25.9). Portion of the land with carrying amount of P30.1 million as of December 31, 2017 was used as collateral for certain loans with local banks, which was released in 2018 (see Note 17).

The accumulated balance of Property Development Costs as presented in the consolidated statements of financial position amounted to as follows:

| | **2018** | 2017 (As Restated – see Note 27.5) |
|---|---|---|
| MidPark Residences | **P 457,677,960** | P 467,645,959 |
| Pixel Residences | **253,733,214** | 127,462,542 |
| | **P 711,411,174** | P 595,108,501 |

Cost of condominium units sold amounted to P72.9 million, P30.3 million and P0.4 million in 2018, 2017 and 2016, respectively (see Notes 20.3 and 22).

### *10.2 Contract Accounts*

The significant changes in the contract asset and liability balances during the reporting periods are as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Contract Asset** | **Contract Liability** | Contract Asset | Contract Liability |
| Balance at beginning of year | **P 47,301,272** | **P 124,328,053** | P 684,636 | P 6,154,956 |
| Increase as a result of changes in measurement of progress | **119,351,065** | **-** | 46,616,636 | - |
| Increase due to cash received excluding amount recognized as revenue during the year | **-** | **86,131,768** | - | 118,173,097 |
| Balance at end of year | **P 166,652,337** | **P 210,459,821** | P 47,301,272 | P 124,328,053 |

The transaction price allocated to the remaining performance obligation (unsatisfied or partially satisfied) as at December 31, 2018 and 2017 are as follows:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **P 161,284,978** | P 273,714,609 |
| More than one year | **50,031,967** | 8,365,287 |
| | **P 211,316,945** | P 282,079,896 |

The remaining performance obligations expected to be recognized within one year and in more than one year relate to the continuous development of the Group's real estate projects. The Group's condominium units are expected to be completed within three years from start of construction.

## 11. LAND AND LAND DEVELOPMENT COSTS

This account pertains to the cost of land available for sale located in Aseana Business Park, Parañaque City; Ciudad Nuevo Park, Cavite City; and Lunzuran Heights Subdivision, Zamboanga City with a total lot area of 247,851 square meters and 248,031 square meters as of December 31, 2018 and 2017, respectively.

The analysis of the movements of the balance of Land and Land Development Costs is as follows:

| | Note | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Balance at beginning of year | | **P 1,954,437,686** | P 2,008,680,490 |
| Additions during the year | | **207,811,737** | 141,987,098 |
| Sales during the year | 22 | **( 40,078)** | ( 141,520,283) |
| Reclassification | 15 | **-** | ( 54,709,619) |
| Balance at end of year | | **P 2,162,209,345** | P 1,954,437,686 |

Management has estimated that the net realizable value of Land and Land Development Costs is higher than its carrying value as of December 31, 2018 and 2017. As of December 31, 2018 and 2017, certain portion of the parcels of land owned by the Group with a total lot area of 2,777 square meters and carrying amounts of P44.2 million is used as collateral to secure certain peso denominated interest-bearing loans (see Note 17). The loans do not contain any restriction on the sale of the land except that the mortgage is annotated in the titles of the said properties.

## 12. OTHER CURRENT ASSETS

This account consists of the following:

| | Note | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Short-term placement | | **P 1,400,000,000** | P - |
| Deferred input VAT | | **157,544,447** | 103,843,638 |
| Input VAT | | **134,853,815** | 168,018,560 |
| Prepayments | | **106,465,149** | 155,408,894 |
| Contract acquisition costs | 3.2(h) | **49,255,546** | 18,528,605 |
| Creditable withholding tax | | **6,292,333** | 102,416,124 |
| Others | | **-** | 3,779,975 |
| | | **P 1,854,411,290** | P 551,995,796 |

Short-term placement pertains to a time deposit with maturity of 102 days from date of acquisition. The related interest income amounting to P11.8 million is included as part of Finance income account (see Note 21.2) in 2018 while accrued interest is presented as part of Others under current Receivables account as of December 31, 2018 (see Note 9).

Deferred input VAT pertains to the corresponding input VAT on subcontract services, which are yet to be recognized in installments in the next reporting period.

Prepayments mostly pertain to real property taxes and other incidental business prepayments which are expected to be realized within 12 months after the end of the reporting period.

## 13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

This account consists of the following:

| | Notes | **2018** | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Investments in: | | | |
| Associates | 13.1 | **P 49,168,560** | P 49,526,587 |
| Joint ventures | 13.2 | **6,665,905** | 127,062,953 |
| | | **P 55,834,465** | P 176,589,540 |

The Group's associates and joint ventures are all incorporated and with principal operations in the Philippines. These entities are engaged in businesses related to the Parent Company's operations.

The components of the carrying amounts of investments in associates and joint ventures are as follows:

### *13.1 Investments in Associates*

The movements in the carrying amount of investments in associates which is accounted for under the equity method in the consolidated financial statements of the Group, are shown below.

| | **2018** | 2017 |
|---|---|---|
| Acquisition costs | **P 56,913,213** | P 56,913,213 |
| Accumulated share in net losses: | | |
| Balance at beginning of year | **( 7,386,626)** | ( 7,161,955) |
| Share in net losses | **( 358,027)** | ( 224,671) |
| Balance at end of year | **( 7,744,653)** | ( 7,386,626) |
| | **P 49,168,560** | P 49,526,587 |

The Group's associates include ERTI, ACBMDC and AHEC. Although AHEC is currently in the process of liquidation [see Note 1.2(q)], the Group has assessed that the Group's existing share in the net assets of AHEC exceeds the carrying amount of its investment considering that AHEC has sufficient assets, including construction equipment related to the business of the Group. Upon completion of AHEC's liquidation, management of the Group believes that the Group may obtain portion of these assets in the form of a return of invested capital.

### *13.2 Investments in Joint Ventures*

The Group's joint ventures include ABCC and BRADCO. The movements in the carrying amount of investments in joint ventures, which is accounted for under the equity method in the consolidated financial statements of the Group, are shown below.

| | **2018** | 2017 (As Restated – see Note 27.5) |
|---|---|---|
| Acquisition costs | | |
| Balance at beginning of year | **P 165,303,749** | P 165,303,749 |
| Reclassification to investment in joint venture held for termination | **( 163,303,749)** | - |
| Balance at end of year | **2,000,000** | 165,303,749 |
| Accumulated share in net losses: | | |
| Balance at beginning of year | **( 38,240,796)** | ( 37,472,490) |
| Reclassification to investment in joint venture held for termination | **36,240,796** | - |
| Share in net income (losses) | **6,665,905** | ( 768,306) |
| Balance at end of year | **4,665,905** | ( 38,240,796) |
| | **P 6,665,905** | P 127,062,953 |

*a) ABCC*

On December 23, 2010, the Parent Company, WHI and Alphaland Development, Inc. (ADI) entered in a Memorandum of Agreement (MOA) whereby the Parent Company, WHI and ADI agreed to transfer certain parcels of land located in ABP in exchange for shares of stock of ABCC, the joint venture entity. While the increase in authorized capital stock of ABCC is pending approval by the SEC, the Parent Company agreed to transfer 96,751 square meters of land with carrying amount of P1,886.5 million [prior to restatement (see Note 27.5)] as of that date. Relative to this, the Parent Company recognized investment in ABCC, under a deed of assignment, amounting to P2,902.5 million [prior to restatement (see Note 27.5), which is equivalent to the fair market value of the parcels of land contributed at the time of investment] and accounted for as an investment in a joint venture.

Further, the Parent Company and WHI agreed to contribute additional parcels of land to ABCC in exchange for additional shares of stock upon transfer of ownership and control of the subject parcels of land from PRA to the Parent Company and WHI. As of December 31, 2018, the ownership and control of the parcels of land to be contributed are not yet transferred to the Parent Company and WHI.

Likewise in 2010, the Parent Company agreed, through the MOA, to receive noninterest-bearing advances amounting to P1,000 million from ADI in consideration of which the Parent Company agreed to assign all its rights and interest on certain number of common shares to be issued by ABCC to the Parent Company so as to arrive at the agreed ownership structure of ABCC. Since then, the assignment has been put on hold pending the performance of certain conditions under the MOA. These advances are previously presented as Advances from a Co-joint Venturer account in the consolidated statements of financial position.

In 2018, the Parent Company, along with WHI and ABCC, entered into a Settlement Agreement with ADI regarding their joint venture agreement (the JV Agreement), and all disputes related thereto, in relation to the development of the Alphaland Bay City project located in Aseana City. Under the Settlement Agreement (SA), the parties have agreed to terminate, rescind or otherwise cancel the JV Agreement, and waive and release any and all rights or interests they, or may have arising therefrom subject to certain conditions.

In the same year, the Parent Company entered into a Consideration Agreement with certain third parties whereby one of the performance obligations of the Parent Company, together with WHI, in exchange for the Parent Company's non-refundable cash consideration is to transfer their rights provided for under a certain JV Agreement, through giving their consent in favor of the third parties to be able to acquire from ADI certain parcels of land contributed by ADI to the joint venture. The related performance obligation was accordingly satisfied by the Parent Company in 2018 [see Notes 3.1(a)(iv)]. The same Consideration Agreement also requires a second performance obligation in exchange for another cash consideration whereby the Parent Company shall provide specific guidelines, review the compliance and undertake related activities thereto, in favor of the third parties with respect to its development project design on the parcels of land purchased by one of the third parties from ADI in Aseana City. The second performance obligation is to be satisfied over time from January to August 2019. Subject to the foregoing certain terms and conditions governing the transfer of such rights to the third parties and their ability to take full and unrestricted control over the development of the parcels of land, the Parent Company is entitled to consideration totaling P2,050.0 million collectible in two years, of which the aforementioned non-refundable portion amounting to P1,200.0 million was received by the Parent Company in 2018 as the consideration for the consent given by the Parent Company. This is included as part of Other income account in the 2018 conslidated statement of profit or loss (see Note 21.4).

As part of the termination of the JV Agreement, the parties agreed to withdraw their earlier request for a tax free ruling from the Bureau of Internal Revenue (BIR) on the property contributions for shares in ABCC and to petition the SEC to cancel its approval of the increase in capital stock of ABCC in 2012. The approval by the SEC was obtained on December 18, 2018 whereby it ordered ABCC's capital stock to be corrected.

Management, in consultation with its external legal counsel, is of the opinion that the cancellation of the aforementioned SEC's approval on the increase in capital stock of ABCC should be accounted for restrospectively. Accordingly, the Group restated its investment in ABCC to reflect the original valuation of the parcels of land from its fair value amounting to P2,902.5 million to the land's carrying value amounting to P1,866.5 million since the parcels of land previously contributed to the joint venture were no longer intended to be applied to the increase in capital stock of ABCC in 2012. This also resulted in the Group's derecognition of the previous gain on exchange of parcels of land for shares of stock amounting to P1,016.0 million, net of the related deferred tax liability amounting to P101.6 million arising from such contribution by the Group to ABCC, to the Retained Earnings Account as of January 1, 2016 (see Note 27.5). Further, the Group restated the original carrying amount of P1,886.5 million to reflect the correct valuation of the asset after eliminating the effect of the estimated liability for development costs that were previously capitalized as part of the carrying amount of such parcels of land (see Note 27.5).

The carrying amount after reflecting the effect of the restatements to the Group's investment in ABCC (see Note 27.5), which is lower than its fair value less cost to terminate, contributed by the Parent Company under the JV Agreement was reclassified from Investments in joint venture under the Investments in Associates and Joint Ventures account as of December 31, 2017 to Investment in Joint Venture Held for Termination account in the 2018 consolidated statement of financial position (see Notes 2.14 and 13.3). The Group intends to recover such investment in joint venture held for termination through the receipt of the previously contributed investment property within one year from the end of the reporting period, subject to the fulfillment of the conditions as set forth in the SA.

*b) BRADCO*

On February 15, 1992, the Parent Company entered into a joint venture agreement with the Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS) to form BRADCO, a joint venture. The Company and AFPRSBS each owns 50% interest in the joint venture.

Pursuant to the joint venture agreement, the Parent Company and BRADCO entered into a construction agreement whereby the Parent Company undertook the construction of a building intended to be held for lease. The construction of the building was completed in 2015 with the accumulated costs totaling P38.6 million recognized as part of Buildings and improvements under Investment Properties account.

There are no significant risks, commitments, or contingencies related to the Group's interests in BRADCO during the reporting periods.

### *13.3 Financial Information of Associates and Joint Ventures*

The summarized financial information of ABCC, which management considered to be material to the Group, as of December 31, 2017 is shown below. No other associates or joint venture are considered by management as material to the consolidated financial statements.

| | |
|---|---|
| Total assets | P 8,428,096,600 |
| Total liabilities | ( 175,032,379 ) |
| Net assets | 8,253,064,221 |
| Percentage interest | 34.73% |
| Carrying value prior to restatement (see Note 27.5) | 2,866,289,204 |
| Adjustments for: | |
| Derecognition of gain on exchange of parcels of land for shares of stock, gross of deferred tax [see Note 13.2(a)] | ( 1,015,991,664 ) |
| Restatement to derecognize the capitalized capitalized cost from estimated liability for land development costs [see Note 13.2(a)] | ( 1,723,234,587 ) |
| Carrying value – as restated | P 127,062,953 |

Net loss, which is equivalent to all expenses, of ABCC amounted to P2.3 million for the year ended December 31, 2017. The Group's proportionate share of 34.73% in net assets of ABCC approximates to the carrying amount of the investment in ABCC (prior to restatement) as of December 31, 2017.

No dividends were received from the associates and joint ventures in 2018, 2017 and 2016.

These associates and joint ventures are not listed in the local stock exchange; hence, the fair value of the shares cannot be determined reliably. However, management believes that the carrying amounts of the investments are fully recoverable based on either the prospect of the business or the recoverable amount from the net assets of these associates and joint ventures.

### *13.4 Acquisition of Assets*

On December 9, 2016, AHI acquired 100% equity ownership interest in Reine. Reine holds investment properties representing land and building (see Note 15).

In accordance with the Group's policy (see Note 2.17), the transaction is treated by the Group as an asset acquisition since the transaction does not constitute a business combination. The purchase price upon acquisition amounting to P160.0 million was allocated among the asset and liability accounts based on their relative fair values.

Subsequent to the date of acquisition, any changes in the carrying value of the net assets acquired in the books of Reine arising from its own operations shall be updated and accounted for in the books of the Group on a line-by-line basis, as if they are consolidated into a single entity. The registered office of Reine is located at Escolta, Manila while its principal place of business is in Makati City.

### *13.5 Noncontrolling Interests*

Noncontrolling interests (NCI) pertain to the 37.8%, 44.6%, 19.0%, 33.0%, 44.0%, 4.0% and 40.0% equity ownership of minority stockholders in FRDC, R-1, MLCI, AITPI, SBRI, ARESM and BAHI. The selected financial information (before inter-company eliminations) of BAHI, which is considered the only material NCI is shown below.

| | **2018** | 2017 |
|---|---|---|
| Assets | **P 6,133,532,010** | P 6,090,531,236 |
| Liabilities | **4,459,604,546** | 4,452,073,265 |
| Equity | **1,673,927,464** | 1,638,457,971 |
| NCI in equity | **669,560,741** | 655,365,850 |
| Net income | **21,274,602** | 1,163 |
| Net income allocated to NCI | **14,194,891** | 697 |

The principal place of business of BAHI is located at 6th Floor, LTA Building, 118 Perea Street, Legaspi Village, Makati City, Metro Manila.

Management determined that the difference between the respective equity ownership of minority stockholders over the equity of the aforementioned subsidiaries and the amount of NCI recognized in the consolidated statements of financial position is not material to the consolidated financial statements.

## 14. PROPERTY AND EQUIPMENT

The gross carrying amounts and the accumulated depreciation and amortization of property and equipment at the beginning and end of 2018 and 2017 are shown below.

| | Land | Land Improvements | Leasehold Improvements | Machinery and Construction Equipment | Transportation Equipment | Furniture and Office Equipment | Machinery and Other Equipment | Total |
|---|---|---|---|---|---|---|---|---|
| December 31, 2018 | | | | | | | | |
| Cost | P 9,291,800 | P 4,034,354 | P 36,447,238 | P 437,985,422 | P 44,372,629 | P 37,711,745 | P 14,244,402 | P 584,087,590 |
| Accumulated depreciation and amortization | - | (2,641,557) | (20,668,782) | (351,706,232) | (34,804,802) | (29,736,852) | (13,871,780) | (453,430,005) |
| Net carrying amount | **P 9,291,800** | **P 1,392,797** | **P 15,778,456** | **P 86,279,190** | **P 9,567,827** | **P 7,974,893** | **P 372,622** | **P 130,657,585** |
| December 31, 2017 | | | | | | | | |
| Cost | P 9,291,800 | P 4,034,354 | P 36,307,260 | P 416,235,610 | P 39,264,635 | P 34,860,606 | P 14,244,402 | P 554,238,667 |
| Accumulated depreciation and amortization | - | (2,376,794) | (14,376,605) | (318,110,172) | (36,414,616) | (25,469,013) | (13,552,911) | (410,300,111) |
| Net carrying amount | P 9,291,800 | P 1,657,560 | P 21,930,655 | P 98,125,438 | P 2,850,019 | P 9,391,593 | P 691,491 | P 143,938,556 |
| January 1, 2017 | | | | | | | | |
| Cost | P 9,291,800 | P 4,034,354 | P 35,492,165 | P 405,550,668 | P 39,264,635 | P 27,451,902 | P 14,244,402 | P 535,329,926 |
| Accumulated depreciation and amortization | - | (2,112,031) | (8,120,241) | (289,238,965) | (33,812,045) | (21,991,581) | (13,253,462) | 368,528,325 |
| Net carrying amount | P 9,291,800 | P 1,922,323 | P 27,371,924 | P 116,311,703 | P 5,452,590 | P 5,460,321 | P 990,940 | P 166,801,601 |

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 of property and equipment is shown below.

| | Land | Land Improvements | Leasehold Improvements | Machinery and Construction Equipment | Transportation Equipment | Furniture and Office Equipment | Machinery and Other Equipment | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2018, net of accumulated depreciation and amortization | P 9,291,800 | P 1,657,560 | P 21,930,655 | P 98,125,438 | P 2,850,019 | P 9,391,593 | P 691,491 | P 143,938,556 |
| Additions | - | - | 139,978 | 21,749,812 | 5,107,994 | 2,851,139 | - | 29,848,923 |
| Depreciation and amortization charges for the year | - | ( 264,763) | ( 6,292,177) | ( 33,596,060) | ( 1,609,814) | ( 4,267,839) | ( 318,869) | ( 43,129,894) |
| Balance at December 31, 2018, net of accumulated depreciation and amortization | **P 9,291,800** | **P 1,392,797** | **P 15,778,456** | **P 86,279,190** | **P 9,567,827** | **P 7,974,893** | **P 372,622** | **P 130,657,585** |
| Balance at January 1, 2017, net of accumulated depreciation and amortization | P 9,291,800 | P 1,922,323 | P 27,371,924 | P 116,311,703 | P 5,452,590 | P 5,460,321 | P 990,940 | P 166,801,601 |
| Additions | - | - | 815,095 | 10,684,942 | - | 7,408,704 | - | 18,908,741 |
| Depreciation and amortization charges for the year | - | ( 264,763) | ( 6,256,364) | ( 28,871,207) | ( 2,602,571) | ( 3,477,432) | ( 299,449) | ( 41,771,786) |
| Balance at December 31, 2017, net of accumulated depreciation and amortization | P 9,291,800 | P 1,657,560 | P 21,930,655 | P 98,125,438 | P 2,850,019 | P 9,391,593 | P 691,491 | P 143,938,556 |

As of December 31, 2018 and 2017, fully depreciated assets with original costs amounting to P330.0 million and P324.4 million, respectively, are still being used in operations.

The amount of depreciation and amortization is allocated as follows:

| | Notes | **2018** | 2017 | 2016 |
|---|---|---|---|---|
| Cost of construction contracts | 20.1 | **P 14,464,456** | P 7,721,327 | P 14,466,637 |
| Capitalized as part of land and land development costs | 2.5(a) | **14,588,572** | 22,395,603 | 9,136,432 |
| General and administrative expenses | 22 | **14,076,866** | 11,654,856 | 12,978,346 |
| | | **P 43,129,894** | P 41,771,786 | P 36,581,415 |

The management believes that the carrying amount of property and equipment is recoverable in full; hence, no impairment loss is recognized in 2018, 2017 and 2016.

## 15. INVESTMENT PROPERTIES

The gross carrying amounts and the accumulated depreciation of investment properties at the beginning and end of 2018 and 2017 are shown below.

| | **Land** (As Restated – see Note 27.5) | **Building and Improvements** | **Condominium Units** | **Construction in Progress** | **Total** |
|---|---|---|---|---|---|
| December 31, 2018 | | | | | |
| Cost | P 8,720,243,460 | P 2,989,677,001 | P 25,228,650 | P 162,085,268 | P 11,897,234,379 |
| Accumulated depreciation | - | ( 445,344,411) | ( 3,507,438) | - | ( 448,851,849 ) |
| Net carrying amount | **P 8,720,243,460** | **P 2,544,332,590** | **P 21,721,212** | **P 162,085,268** | **P 11,448,382,530** |
| December 31, 2017 | | | | | |
| Cost | P 8,720,243,460 | P 1,759,236,249 | P 25,228,650 | P 946,745,476 | P 11,451,453,835 |
| Accumulated depreciation | - | ( 340,267,692) | ( 2,498,292) | - | ( 342,765,984 ) |
| Net carrying amount | P 8,720,243,460 | P 1,418,968,557 | P 22,730,358 | P 946,745,476 | P 11,108,687,851 |
| January 1, 2017 | | | | | |
| Cost | P 13,303,681,180 | P 1,670,413,757 | P 25,228,650 | P 272,833,239 | P 15,272,156,826 |
| Accumulated depreciation | - | ( 272,391,090) | ( 1,489,146) | - | ( 273,880,236 ) |
| Net carrying amount | P 13,303,681,180 | P 1,398,022,667 | P 23,739,504 | P 272,833,239 | P 14,998,276,590 |

The reconciliation of the carrying amounts of investment properties at the beginning and end of 2018 and 2017 is shown below.

| | Land (As Restated – see Note 27.5) | Building and Improvements | Condominium Units | Construction in Progress | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2018, net of accumulated depreciation | P 8,720,243,460 | P 1,418,968,557 | P 22,730,358 | P 946,745,476 | P 11,108,687,851 |
| Additions | - | - | - | 445,780,544 | 445,780,544 |
| Reclassification from CIP to building and improvements | - | 1,230,440,752 | - | ( 1,230,440,752) | - |
| Depreciation charges for the year | - | ( 105,076,719) | ( 1,009,146) | - | ( 106,085,865 ) |
| Balance at December 31, 2018, net of accumulated depreciation | **P 8,720,243,460** | **P 2,544,332,590** | **P 21,721,212** | **P 162,085,268** | **P 11,448,382,530** |
| Balance at January 1, 2017, net of accumulated depreciation | P 8,789,675,980 | P 1,398,022,667 | P 23,739,504 | P 272,833,239 | P 10,484,271,390 |
| Additions | 67,000,000 | 7,201,260 | - | 755,533,468 | 829,734,728 |
| Disposal | ( 191,142,139) | - | - | - | ( 191,142,139 ) |
| Reclassification from CIP to building and improvements | - | 81,621,231 | - | ( 81,621,231) | - |
| Reclassification from land and land development costs | 54,709,619 | - | - | - | 54,709,619 |
| Depreciation charges for the year | - | ( 67,876,601) | ( 1,009,146) | - | ( 68,885,747 ) |
| Balance at December 31, 2017, net of accumulated depreciation | P 8,720,243,460 | P 1,418,968,557 | P 22,730,358 | P 946,745,476 | P 11,108,687,851 |

The amount of depreciation is allocated as follows:

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Cost of rentals | 20.2 | **P 103,185,483** | P 65,464,981 | P 62,059,362 |
| General and administrative expenses | | **2,900,382** | 3,420,766 | 1,685,897 |
| | 22 | **P 106,085,865** | P 68,885,747 | P 63,745,259 |

*a) Building and Improvements*

Building and improvements include the building of Reine amounting to P2.9 million arising from the asset acquisition by AHI (see Note 13.4).

The Group received certain condominium unit with parking lots valued at P23.7 million as a result of a deed of exchange in 2015 (see Note 27.1). The remaining estimated useful life of these assets approximates to those applied in depreciating similar type of assets.

Construction in progress account also includes capitalized borrowing costs from interest-bearing loans obtained specifically to finance the construction amounting to P28.3 million, P16.3 million and P1.4 million in 2018, 2017 and 2016, respectively, at a capitalization rate of 3.0% to 5.3% in 2018, 2.8% to 3.4% in 2017 and 3.0% to 3.8% in 2016 (see Note 17).

*b) Land*

In 2017, the Group purchased parcels of land from a certain stockholder amounting to P67.0 million where the obligation was offset against the advances granted to the related party (see Notes 25.1 and 25.10). There was no similar transaction in 2018.

In 2017 and 2016, the Group sold certain investment properties to third parties with selling price amounting to P400.9 million and P713.1 million, respectively, which resulted in the recognition of gain on sale of investment properties amounting to P257.7 million and P312.5 million, respectively, and are presented as part of Other Operating Income account in the 2017 and 2016 consolidated statements of profit or loss (see Note 21.3). There were no outstanding balances arising from the sale transactions as of December 31, 2017. There was no similar transaction in 2018.

In 2017, the Group reclassified certain parcels of land which were previously presented under Land and Land Development Costs to Investment Properties amounting to P54.7 million. The reclassification resulted from the change in management intention evidenced by using the parcels of land for rental in 2017 (see Note 11).

Land include the property owned by Reine amounting to P153.4 million acquired through asset acquisition (see Note 13.4).

*c) Other Information*

Land and building rental revenues recognized from investment properties amounted to P1,727.4 million, P1,349.1 million and 1,205.1 million in 2018, 2017 and 2016, respectively, and are shown as part of Rentals under Revenues account in the consolidated statements of profit or loss. Costs incurred related to investment properties, including the depreciation, are presented as Rentals under Costs of Services and Sales account in the consolidated statements of profit or loss (see Note 20.2).

The fair value of investment properties amounted to P101,029.1 million and P75,805.4 million as of December 31, 2018 and 2017, respectively (see Note 7.4).

Management believes that the carrying amounts of investment properties are recoverable in full; hence, no impairment loss is recognized in 2018, 2017 and 2016.

Certain investment properties with carrying amount of P301.5 million as of December 31, 2018 and 2017 are used as collateral for certain loans with local banks (see Note 17).

## 16. OTHER NON-CURRENT ASSETS

This account includes the following:

| | Notes | **2018** | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Advances to suppliers | 9.2 | **P 436,224,883** | P 44,917,970 |
| Project advances | 16.3 | **97,185,923** | 86,669,884 |
| Financial assets at FVOCI | 16.2 | **74,755,905** | 74,536,260 |
| Deposits for future investment | 16.1 | **54,026,935** | 54,026,935 |
| Refundable deposits | 16.4 | **52,254,083** | 18,997,481 |
| Contract acquisition costs | 3.2(i) | **5,503,473** | 5,747,730 |
| Others | | **3,637,164** | 10,421,751 |
| | | **P 723,588,366** | P 295,318,011 |

### *16.1 Deposits for Future Investment*

Included in the deposits for future investment as of December 31, 2018 and 2017 are deposits totaling to P40.3 million made by the Group to acquire certain properties. While the title of the properties are not yet transferred to the Group, management remains committed to purchase the properties as of December 31, 2018 and 2017.

This account also includes deposits made by the Group to third party landowners of certain parcels of land located in Romblon under a joint agreement to develop the property. The Group is entitled to an irrevocable and exclusive option to purchase the property from the landowners. In case the Group exercises the said option, the total amount from which the landowners have received the deposits shall form part of the total purchase price; otherwise, whatever amount of deposits received by the landowners shall be forfeited in favor of the latter. The Group remains committed under the joint agreement. As of December 31, 2018 and 2017, the deposits made by the Group amounted to P13.7 million.

### *16.2 Financial Assets at Fair Value Through Other Comprehensive Income*

The reconciliation of the carrying amounts of financial assets at FVOCI is as follows:

| | Note | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Balance at beginning of year | | **P 74,536,260** | P 25,627,365 |
| Unrealized fair value gains | 27.2 | **219,645** | 80,115 |
| Additions | | **-** | 48,828,780 |
| Balance at end of year | | **P 74,755,905** | P 74,536,260 |

Financial assets at FVOCI consist of investment in golf club shares and certain unquoted equity securities. The Group used Level 2 and 3 in determining the fair value of Financial assets at FVOCI (see Note 7.2). Addition in 2017 pertain to certain unquoted investment in equity securities acquired by the Group which did not result in a control or significant influence by the Group over the investee.

Fair value gains recognized on these Financial assets at FVOCI are shown as part of Other Comprehensive Income (Loss) in the consolidated statements of comprehensive income which formed part of the balance of revaluation reserves on financial assets at FVOCI presented as part of Revaluation Reserves under the equity section of the consolidated statements of financial position (see Note 27.2).

### *16.3 Project Advances*

Project advances significantly pertain to a Contract of Reclamation entered into in prior years with the City of Mandaue, Cebu. In January 2018, the Construction Industry Arbitration Commission issued the Writ of Execution ordering the City of Mandaue to honor the Contract of Reclamation, and the parties to comply with their reciprocal obligations therein, without prejudice to the parties agreeing to alternative reclamation sites to avoid further delay in the implementation of the contract.

The Group may opt to be paid either in the form of land or cash proceeds from the sale of land to be reclaimed. As of December 31, 2018 and 2017, the project has not commenced but the Group has assessed that the amount of project advances collectible in the form of land is recoverable in full.

There are other projects with similar nature and circumstances (i.e., feasibility and/or pre-development stages) with the Philippine government and other counterparties, of which management has assessed that the related project advances remain recoverable as of December 31, 2018 and 2017.

### *16.4 Refundable Deposits*

Refundable deposits significantly include deposits, which are perpetual in nature, made to power and water distribution companies pursuant to the supply needs of the Group's existing and on-going projects in Aseana City.

## 17. LOANS AND BORROWINGS

The Group's short-term and long-term loans and borrowings are classified in the consolidated statements of financial position as follows:

| | **2018** | 2017 |
|---|---|---|
| Current | **P 1,417,170,000** | P 1,656,593,434 |
| Non-current | **511,750,000** | 820,309,511 |
| | **P 1,928,920,000** | P 2,476,902,945 |

The Group obtained bank loans to support its working capital requirements, financing and investing activities, which include the Group's construction and development of certain investment properties (see Note 15).

Bank loans represent partially secured and unsecured loans from local commercial banks. These loans bear annual interest rates ranging from 3.60% to 5.75% per annum, 3.00% to 3.25% per annum and 2.79% to 3.80% per annum in 2018, 2017 and 2016, respectively, and are subject to monthly repricing based on prevailing market rate, except for certain long-term bank loans that are subject to fixed rate. Bank loans have maturity of six months from the end of each reporting period while other portion of the loans have quarterly payments over a period of seven years starting in the second year from initial loan release with two years grace period.

As of December 31, 2018 and 2017, bank loans are partially secured by certain assets as follows:

| | Note | **2018** | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Investment properties | 15 | **P 301,525,742** | P 301,525,742 |
| Land and land development costs | 11 | **44,230,441** | 44,230,441 |
| Property development costs | 10 | **-** | 30,089,741 |
| | | **P 345,756,183** | P 375,845,924 |

The reconciliation of the carrying amounts of the Group's loans and borrowings arising from financing activities is shown below.

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | **P 2,476,902,945** | P 2,663,409,274 |
| Repayments | **( 1,552,982,945)** | ( 545,478,732) |
| Additional borrowings | **1,005,000,000** | 358,972,403 |
| Balance at end of year | **P 1,928,920,000** | P 2,476,902,945 |

In 2018, 2017 and 2016, interest costs related to bank loans amounted to P64.5 million, P65.9 million and P77.6 million, respectively, and were recognized as part of Finance costs under Other Income (Charges) account in the consolidated statements of profit or loss (see Note 21.1). On the other hand, capitalized borrowing costs in 2018 and 2017 amounted to P28.3 million and P16.3 million, respectively (see Note 15). There is no unpaid interest related to bank loans as of December 31, 2018 and 2017.

Except as disclosed in Note 29, the Group has no significant loan covenants as of December 31, 2018 and 2017.

## 18. TRADE AND OTHER PAYABLES

This account consists of the following:

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Trade payables | 25.6, 25.9 | **P 370,014,513** | P 699,018,185 |
| Deferred output VAT payable | | **280,364,702** | 133,623,833 |
| Accrued expenses | | **216,842,603** | 233,679,117 |
| Retention payable | | **121,189,596** | 15,457,818 |
| Income tax payable | | **111,190,439** | 23,573,076 |
| Other payables | | **25,549,317** | 8,506,414 |
| | | **P 1,125,151,170** | P 1,113,858,443 |

Deferred output VAT payable relates to outstanding receivables from construction contracts as of the end of the reporting periods.

Accrued expenses include withholding taxes on compensation, expanded withholding taxes and other statutory liabilities that are expected to be settled within twelve months from the end of each reporting period.

Retention payable represent a portion of progress billings received from third party contractors for the construction work performed which is retained by the Group to bind the contractors in completing the agreed performance obligation.

## 19. DEPOSITS AND ADVANCES

This account consists of:

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Current: | | | |
| Advance rentals | | **P 381,340,153** | P 284,646,483 |
| Reservation deposits | 2.16 | **294,014,598** | 134,307,178 |
| Rental deposits | | **54,400,070** | 88,498,491 |
| Construction bond | 9.3 | **47,566,440** | 14,101,059 |
| Unearned rent income | | **9,625,087** | 2,648,953 |
| Buyers' deposits | 2.16 | **1,009,196** | 1,009,196 |
| Others | | **5,596,053** | 15,158,112 |
| | | **793,551,597** | 540,369,472 |
| Non-current: | | | |
| Advance rentals | | **P 234,512,765** | P 397,188,898 |
| Rental deposits | | **182,589,901** | 116,756,462 |
| Unearned rent income | | **67,617,063** | 54,190,339 |
| Retention payable | | **14,280,510** | 7,541,043 |
| Buyers' deposits | 2.16 | **5,827,833** | 5,827,833 |
| Others | | **30,900** | - |
| | | **504,858,972** | 581,504,575 |
| | | **P 1,298,410,569** | P 1,121,874,047 |

Advance rentals pertain to payments received from tenants to be applied on future rentals due on the lease of the Group's properties held under operating lease agreements. For income tax purposes, advance rentals are considered as part of taxable income upon receipt, less initial direct costs incurred by the Group in negotiating and arranging the specific operating lease, which shall be amortized over the same term as that of the advance rentals (see Note 24). In addition, the application of the non-current portion of the advance rentals commenced in 2017 in accordance with the terms of the lease agreement.

Unearned rent income resulted from the recognition of day-one gain on discounting of rental deposits, which are amortized over the remaining lease term.

Buyers' deposits represent advances received from customers for real estate land to be sold. Buyers' deposits will be applied against the receivables from customers upon consummation of sale.

## 20. COSTS OF SERVICES AND SALES

### *20.1 Cost of Construction Contracts*

The details of cost of construction contracts are shown below.

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Subcontract services | 25.7 | **P 30,723,774** | P 42,456,220 | P 8,269,240 |
| Depreciation and amortization | 14 | **14,464,456** | 7,721,327 | 14,466,637 |
| Construction materials | | **13,246,474** | 71,841,745 | 172,998,045 |
| Salaries and employee benefits | 23.1 | **1,868,051** | 10,215,311 | 2,480,013 |
| Gasoline and oil | | **1,206,026** | - | 3,739,549 |
| | 22 | **P 61,508,781** | P 132,234,603 | P 201,953,484 |

### *20.2 Cost of Rentals*

The following are the details of direct costs and expenses of rentals, including common usage and service area charges:

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|---|
| Depreciation | 15 | **P 103,185,483** | P 65,464,981 | P 62,059,362 |
| Outside services | | **26,249,185** | 19,581,760 | 19,840,598 |
| Real property tax | | **23,209,168** | 21,414,885 | 24,743,404 |
| Repairs and maintenance | | **17,498,386** | 9,589,936 | 4,275,988 |
| Utilities | | **16,435,443** | 6,506,540 | 7,890,882 |
| Office supplies | | **8,631,715** | 3,245,176 | 4,213,176 |
| Professional fees | | **7,659,353** | 4,671,968 | 3,673,197 |
| Others | | **9,492,510** | 5,274,210 | 3,390,270 |
| | 22 | **P 212,361,243** | P 135,749,456 | P 130,086,877 |

### *20.3 Cost of Sale of Condominium Units*

The following are the details of direct costs and expenses of condominium units sold:

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|---|
| Outside services | | **P 60,377,372** | P 24,683,471 | P 368,083 |
| Land cost | | **8,292,309** | 3,334,186 | 50,468 |
| Others | | **4,206,037** | 2,314,597 | 26,923 |
| | 10.1, 22 | **P 72,875,718** | P 30,332,254 | P 445,474 |

## 21. OTHER OPERATING AND NON-OPERATING INCOME (CHARGES)

Presented below are the details of other income (charges).

### *21.1 Finance Costs*

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|---|
| Interest expense: | | | | |
| Bank loans | 17 | **P 64,529,725** | P 65,929,168 | P 77,596,673 |
| Retirement benefit obligation | 23.2 | **1,875,261** | 4,005,985 | 2,404,687 |
| Obligations under finance lease | | **-** | - | 687,312 |
| | | **66,404,986** | 69,935,153 | 80,688,672 |
| Others | | **3,446,556** | 2,171,936 | 3,102,203 |
| | | **P 69,851,542** | P 72,107,089 | P 83,790,875 |

### *21.2 Finance Income*

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|---|
| Interest income | 8, 12 | **P 66,668,597** | P 7,154,349 | P 2,993,008 |
| Foreign currency gain – net | | **2,854,408** | 9,394 | 967,540 |
| | | **P 69,523,005** | P 7,163,743 | P 3,960,548 |

### *21.3 Other Operating Income*

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|---|
| Income from rendering of administrative and other services | 25.5 | **P 37,019,684** | P 24,472,468 | P 25,252,110 |
| Gain on sale of investment property | 15 | **-** | 257,686,063 | 312,453,209 |
| Others | 9.4 | **72,504,606** | 11,355,500 | 30,654,145 |
| | | **P 109,524,290** | P 293,514,031 | P 368,359,464 |

Others also includes parking fee income, vetting fee and signage rental. In 2016, others include an amount received from a certain buyer of land in previous years as penalty settlement of the latter's non-compliance with a certain provision of the contract of sale.

### *21.4 Other Income*

Other income presented in the 2018 and 2016 consolidated statements of profit or loss included the income recognized from the Consideration Agreement amounting to P1,200.0 million in 2018 [see Note 13.2(a)] and Gain from acquisition of a subsidiary amounting to P7.1 million in 2016 (see Note 27.5).

## 22. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|---|
| Depreciation and amortization | 14, 15 | **P 134,627,187** | P 88,261,930 | P 91,190,242 |
| Professional fees | | **139,192,160** | 101,529,631 | 23,879,153 |
| Salaries and employee benefits | 23.1 | **114,436,104** | 110,608,579 | 74,626,896 |
| Taxes and licenses | | **93,340,624** | 76,711,135 | 83,159,596 |
| Outside services | | **92,120,302** | 50,235,130 | 27,194,537 |
| Commission | | **55,117,782** | 57,663,408 | 10,708,386 |
| Subcontract services | 25.7 | **30,723,774** | 42,456,220 | 8,269,240 |
| Representation and entertainment | | **29,649,513** | 27,315,681 | 24,477,460 |
| Association dues | 25.6 | **26,177,767** | 31,329,646 | 20,196,772 |
| Repairs and maintenance | | **23,242,913** | 13,101,312 | 17,397,223 |
| Utilities | | **21,524,241** | 11,447,219 | 12,188,881 |
| Office supplies | | **18,538,071** | 8,264,166 | 7,075,855 |
| Bond and insurance | | **13,418,161** | 7,586,107 | 5,027,147 |
| Construction materials and spare parts | | **13,246,474** | 71,841,745 | 172,998,045 |
| Transportation and travel | | **10,347,309** | 3,991,897 | 2,343,809 |
| Corporate affairs | | **9,527,077** | 6,501,742 | 4,780,988 |
| Impairment loss on financial assets | 5.2(b) | **8,345,199** | 1,032,217 | 3,249,766 |
| Land cost | | **8,292,309** | 3,334,186 | 50,468 |
| Cost of sale of land | 11 | **40,078** | 141,520,283 | 120,375,150 |
| Donation | | **-** | 19,906,877 | - |
| Others | | **47,607,921** | 38,775,638 | 38,667,323 |
| | | **P 889,514,966** | P 913,414,749 | P 747,856,937 |

Others include gasoline and oil, utilities, equipment rentals, postage and communication, bid documents and subsistence.

These expenses are classified in the consolidated statements of profit or loss as follows:

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|---|
| Cost of rentals | 20.2 | **P 212,361,243** | P 135,749,456 | P 130,086,877 |
| Cost of sale of condominium units | 10.1, 20.3 | **72,875,718** | 30,332,254 | 445,474 |
| Cost of construction contracts | 20.1 | **61,508,781** | 132,234,603 | 201,953,484 |
| Cost of sale of land | 11 | **40,078** | 141,520,283 | 120,375,150 |
| General and administrative expenses | | **477,827,022** | 412,273,915 | 273,796,546 |
| Selling expenses | | **64,902,124** | 61,304,238 | 21,199,406 |
| | | **P 889,514,966** | P 913,414,749 | P 747,856,937 |

The details of general and administrative expenses are shown below.

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|---|
| Professional fees | | **P 131,532,807** | P 96,857,663 | P 20,205,956 |
| Salaries and employee benefits | 23.1 | **112,568,053** | 100,393,268 | 72,146,883 |
| Taxes and licenses | | **70,131,456** | 55,296,250 | 58,416,192 |
| Representation and entertainment | | **29,649,513** | 27,315,681 | 24,477,460 |
| Association dues | 25.6 | **26,177,767** | 31,329,646 | 20,196,772 |
| Depreciation and amortization | 14, 15 | **16,977,248** | 15,075,622 | 14,664,243 |
| Transportation and travel | | **10,347,309** | 3,991,897 | 2,343,809 |
| Office supplies | | **9,906,356** | 5,018,990 | 2,862,679 |
| Corporate affairs | | **9,527,077** | 6,501,742 | 4,780,988 |
| Impairment loss on financial assets | 5.2(b) | **8,345,199** | 1,032,217 | 3,249,766 |
| Repairs and maintenance | | **5,744,527** | 3,511,376 | 13,121,235 |
| Outside services | | **5,493,745** | 5,969,899 | 6,985,856 |
| Utilities | | **5,088,798** | 4,940,679 | 4,297,999 |
| Bond and insurance | | **3,925,651** | 2,311,897 | 1,636,877 |
| Donation | | **-** | 19,906,877 | - |
| Others | | **32,411,516** | 32,820,211 | 24,409,831 |
| | | **P 477,827,022** | P 412,273,915 | P 273,796,546 |

Others include gasoline and oil, equipment rentals, postage and communication, bid documents and subsistence.

## 23. EMPLOYEE BENEFITS

### *23.1 Salaries and Employee Benefits Expense*

The details of salaries and employee benefits are presented below.

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 |
|---|---|---|---|---|
| Short-term employee benefits | | **P 112,335,781** | P 108,628,286 | P 72,039,262 |
| Post-employment defined benefit | 23.2 | **2,100,323** | 1,980,293 | 2,587,634 |
| | 22 | **P 114,436,104** | P 110,608,579 | P 74,626,896 |

Salaries and employee benefits are classified and presented in the consolidated statements of profit or loss as follows:

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) | 2016 |
|---|---|---|---|---|
| Cost of construction contracts | 20.1 | **P 1,868,051** | P 10,215,311 | P 2,587,634 |
| General and administrative expenses | 22 | **112,568,053** | 100,393,268 | 72,039,262 |
| | 22 | **P 114,436,104** | P 110,608,579 | P 74,626,896 |

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

(a) *Characteristics of the Post-employment Defined Benefit Plan*

In 2018, the Group is in the process of establishing a non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees. As of December 31, 2018, the post-employment benefit plan is subject for approval of the Parent Company's BOD.

The Group conforms to the minimum requirement of Philippine Law wherein it accrues the estimated cost of retirement benefits required by the provisions of R.A. No. 7641. R.A. No. 7641 does not, however, require it to be funded.

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

Actuarial valuations are made annually to update the post-employment benefit cost. All amounts presented are based on the actuarial valuation report obtained from an independent actuary in 2018, 2017 and 2016.

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position are determined as follows:

| | **2018** | 2017 |
|---|---|---|
| Present value of the obligation | **P 70,288,717** | P 65,698,627 |
| Fair value of plan assets | **( 42,644,803)** | - |
| | **P 27,643,914** | P 65,698,627 |

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **P 65,698,627** | P 75,018,446 |
| Current service cost | **2,100,323** | 1,980,293 |
| Interest expense | **3,744,822** | 4,005,985 |
| Actuarial losses (gains) arising from: | | |
| - experience adjustments | **6,822,830** | ( 13,003,686) |
| - changes in financial assumptions | **( 6,205,067)** | ( 1,335,833) |
| Benefits paid | **( 1,872,818)** | ( 966,578) |
| Balance at end of year | **P 70,288,717** | P 65,698,627 |

The movements in the fair value of plan assets are presented below.

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | **P -** | P - |
| Contributions to the plan | **65,598,627** | - |
| Interest income | **1,869,561** | - |
| Return on plan assets (excluding amounts included in net interest) | **( 24,823,385)** | - |
| Balance at end of year | **P 42,644,803** | P - |

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

| | 2018 | 2017 |
|---|---|---|
| Quoted equity securities | **P 42,575,520** | P - |
| Unit investment trust fund | **69,283** | - |
| | **P 42,644,803** | P - |

The fair values of the above equity securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

Plan assets include the Parent Company's own financial instruments (see Note 25.11).

The components of amounts recognized in the consolidated statements of profit or loss and in the consolidated statements of comprehensive income in respect of the post-employment defined benefit plan are as follows:

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| *Recognized in consolidated profit or loss:* | | | | |
| Current service cost | 23.1 | **P 2,100,323** | P 1,980,293 | P 2,587,634 |
| Net interest expense | 21.1 | **1,875,261** | 4,005,985 | 2,404,687 |
| | | **P 3,975,584** | P 5,986,278 | P 4,992,321 |
| *Recognized in consolidated other comprehensive income:* | | | | |
| Actuarial losses (gains) arising from: | | | | |
| - remeasurement loss on plan assets | | **P 24,823,385** | P - | P - |
| - experience adjustments | | **6,822,830** | ( 13,003,686) | 24,622,336 |
| - changes in financial assumptions | | **( 6,205,067)** | ( 1,335,833) | ( 720,295) |
| | 27.2 | **P 25,441,148** | (P 14,339,519) | P 23,902,041 |

Current service cost is recognized as part of Salaries and employee benefits under General and Administrative Expenses account in the consolidated statements of profit or loss (see Note 23.1).

The net interest expense is included as part of Finance costs under Other Income (Charges) account in the consolidated statements of profit or loss (see Note 21.1).

Amount recognized in consolidated other comprehensive income is included and presented as item that will not be reclassified subsequently to consolidated profit or loss.

In determining the amounts of post-employment defined benefit obligation, the following significant actuarial assumptions were used:

| | **2018** | 2017 |
|---|---|---|
| Discount rates | **7.49%** | 5.70% |
| Expected rate of salary increases | **3.00%** | 3.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 60 is 20.5 years and 18.9 years as of December 31, 2018 and 2017, respectively, both for males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c)* *Risk Associated with the Post-employment Plan*

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

(i) *Interest Rate Risk*

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

(ii) *Longevity and Salary Risks*

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

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the post-employment defined benefit plan are described below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31, 2018 and 2017:

| | Impact on Post-employment Defined Benefit Obligation | | |
|---|---|---|---|
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| **December 31, 2018** | | | |
| Discount rate | **+/- 1.0%** | **(P 2,774,716)** | **P 3,245,440** |
| Salary growth rate | **+/- 1.0%** | **3,363,591** | **( 2,912,317)** |
| December 31, 2017 | | | |
| Discount rate | +/- 1.0% | (P 3,349,630) | P 3,903,861 |
| Salary growth rate | +/- 1.0% | 3,302,995 | ( 2,851,849) |

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

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

(ii) *Funding Arrangements and Expected Contributions*

At the end of the reporting period, the Group has not determined yet the additional funding of its post-employment defined benefit obligation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 20.5 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan for the next 10 years as of December 31 follows:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **P 45,338,438** | P 44,040,792 |
| More than one year to five years | **3,546,855** | 2,834,326 |
| More than five years to 10 years | **12,622,476** | 8,977,073 |
| | **P 61,507,769** | P 55,852,191 |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 4.3 years.

## 24. INCOME TAXES

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

| | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|
| *Reported in consolidated profit or loss:* | | | |
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 30% | **P 437,385,496** | P 316,700,311 | P 184,918,316 |
| Final tax at 20% and 7.5% | **13,251,558** | 938,556 | 482,624 |
| Minimum corporate income tax (MCIT) at 2% | **25,033** | 346,670 | 466,350 |
| Capital gains tax at 6% | **-** | 24,054,600 | 42,444,000 |
| | **450,662,087** | 342,040,137 | 228,311,290 |
| Utilization of excess MCIT over RCIT | **-** | ( 152,796) | ( 40,630) |
| | **450,662,087** | 341,887,341 | 228,270,660 |
| Deferred tax expense relating to origination and reversal of temporary differences | **206,856,776** | 192,833,378 | 208,758,464 |
| | **P 657,518,863** | P 534,720,719 | P 437,029,124 |
| *Reported in consolidated other comprehensive income –* | | | |
| Deferred tax expense (income) relating to remeasurement of retirement benefit obligation | **(P 7,632,344)** | P 4,301,856 | (P 7,170,612) |

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the consolidated statements of profit or loss is as follows:

| | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|
| Tax on pretax profit at 30% | **P 773,494,560** | P 627,752,805 | P 493,810,572 |
| Adjustment for income subjected to lower tax rates | **( 4,611,353)** | ( 51,599,352) | ( 51,262,036) |
| Tax effects of: | | | |
| Excess of optional standard deduction (OSD) over itemized deductions | **( 122,029,220)** | ( 50,510,106) | ( 7,982,463) |
| Non-deductible expenses | **9,306,915** | 9,247,827 | 3,773,087 |
| Unrecognized deferred tax on net operating loss carryover (NOLCO) and impairment loss on receivables | **4,840,404** | 2,266,996 | 2,346,008 |
| Non-taxable income | **( 3,914,058)** | ( 2,398,142) | ( 3,656,044) |
| Derecognition of deferred tax asset on expired NOLCO and MCIT | **630,924** | - | - |
| Applied NOLCO | **( 199,309)** | ( 39,309) | - |
| | **P 657,518,863** | P 534,720,719 | P 437,029,124 |

The net deferred tax liabilities relate to the following as of December 31:

| | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|
| Deferred tax assets: | | |
| Advance rentals | **P 181,272,921** | P 198,433,956 |
| Excess deferred gross profit on sale of condominium units | **47,941,716** | 22,390,479 |
| Retirement benefit obligation | **28,533,631** | 19,709,588 |
| Allowance for impairment on receivables | **14,348,222** | 13,773,662 |
| NOLCO | **2,159,164** | 5,040,768 |
| MCIT | **544,386** | 621,568 |
| | **274,800,040** | 259,970,021 |
| Deferred tax liabilities: | | |
| Rent income based on PAS 17 | **( 941,236,396)** | ( 725,393,533) |
| Revaluation increment on land | **( 5,714,368)** | ( 5,714,368) |
| Unrealized foreign currency gains | **( 884,473)** | ( 2,345) |
| Deferred gain on sale of land | **-** | ( 2,670,540) |
| | **( 947,835,237)** | ( 733,780,786) |
| Net deferred tax liabilities | **(P 637,035,197)** | (P 473,810,765) |

The aggregated net deferred tax liabilities of P637.0 million and P473.8 million are composed of net deferred tax assets of P48.0 million and P22.4 million from a certain subsidiary, and net deferred tax liabilities of P721.0 million and P496.2 million from the Parent Company and two other operating subsidiaries, as of December 31, 2018 and 2017, respectively.

Movements in net deferred tax liabilities for the years ended December 31, 2018 and, 2017 and 2016 (as restated – see Note 27.5) are as follows:

| | Profit or Loss | | | Other Comprehensive Income | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| Rent income based on PAS 17 | **P 215,842,863** | P 180,631,343 | P 229,039,075 | **P -** | P - | P - |
| Excess deferred gross profit on sale of condominium units | **( 25,551,237)** | ( 20,806,819) | ( 1,583,660) | - | - | - |
| Advance rentals | **17,161,035** | 35,839,344 | ( 9,822,235) | - | - | - |
| NOLCO | **2,881,604** | 295,123 | ( 5,107,136) | - | - | - |
| Deferred gain on sale of land | **( 2,670,540)** | 2,670,540 | - | - | - | - |
| Retirement benefit obligation | **( 1,191,699)** | ( 1,505,911) | ( 1,244,962) | **( 7,632,344)** | 4,301,856 | ( 7,170,612 ) |
| Unrealized foreign currency gains | **882,128** | ( 271,502) | ( 986,308) | - | - | - |
| Allowance for impairment of receivables | **( 574,560)** | ( 309,665) | ( 974,930) | - | - | - |
| MCIT | **77,182** | ( 17,374) | ( 561,380) | - | - | - |
| Unrealized gross profit on sale of land | **-** | ( 3,691,701) | - | - | - | - |
| Deferred tax expense (income) – net | **P 206,856,776** | P 192,833,378 | P 208,758,464 | **(P 7,632,344)** | P 4,301,856 | (P 7,170,612 ) |

The Group is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. The Group is liable for RCIT in 2018, 2017 and 2016 since RCIT was higher than MCIT, except for ACTTC which was subjected to MCIT, R-1 and BAHI in 2017, and FI in 2017 and 2016.

The Group did not recognize deferred tax assets on NOLCO and MCIT of certain subsidiaries as management has assessed that those subsidiaries may not be able to realize their related tax benefits within the prescribed availment period. The Group did not also recognize the deferred tax asset amounting to P1.9 million arising from the impairment loss on receivables amounting to P6.4 million of a certain subsidiary. The total recognized and unrecognized deferred tax assets relating to NOLCO and MCIT is presented below.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Recognized** | **Unrecognized** | Recognized | Unrecognized |
| NOLCO | **P 2,159,164** | **P 7,978,378** | P 5,040,768 | P 8,516,009 |
| MCIT | **544,386** | **262,866** | 621,568 | 290,663 |
| | **P 2,703,550** | **P 8,241,244** | P 5,662,336 | P 8,806,672 |

The details of NOLCO and MCIT related to the Parent Company's certain subsidiaries, which can be claimed as deduction from future taxable income and regular corporate income tax liabilities, respectively, within three years from the year the NOLCO and MCIT were incurred are shown below.

| **Year Incurred** | **Amount** | **Applied** | **Expired** | **Remaining Balance** | **Valid Until** |
|---|---|---|---|---|---|
| NOLCO: | | | | | |
| 2018 | P 9,621,235 | P - | P - | P 9,621,235 | 2021 |
| 2017 | 12,348,767 | - | - | 12,348,767 | 2020 |
| 2016 | 16,144,212 | ( 4,322,407) | - | 11,821,805 | 2019 |
| 2015 | 21,174,111 | ( 155,427) | ( 21,018,684) | - | |
| | **P 59,288,325** | **(P 4,477,834)** | **(P 21,018,684)** | **P 33,791,807** | |
| MCIT: | | | | | |
| 2018 | P 25,033 | P - | P - | P 25,033 | 2021 |
| 2017 | 370,282 | - | - | 370,282 | 2020 |
| 2016 | 564,733 | ( 152,796) | - | 411,937 | 2019 |
| 2015 | 141,575 | ( 11,563) | ( 130,012) | - | |
| | **P 1,101,623** | **(P 164,359)** | **(P 130,012)** | **P 807,252** | |

In 2018, 2017 and 2016, the Group claimed itemized deductions in computing its income tax due, except for the Parent Company, which opted to claim OSD in 2018, and AHI, which opted to claim OSD in 2018 and 2017.

## 25. RELATED PARTY TRANSACTIONS

The Group's related parties include its Ultimate Parent Company, associates, joint ventures, related parties under common ownership and management, stockholders and key management personnel as described below.

The summary of the Group's significant transactions in 2018, 2017 and 2016 with its related parties and the outstanding balances as of December 31, 2018 and 2017 are presented below and in the succeeding pages.

| Related Party Category | Note | Outstanding Balances 2018 | Outstanding Balances 2017 | Amount of Transactions 2018 | Amount of Transactions 2017 | Amount of Transactions 2016 |
|---|---|---|---|---|---|---|
| **Ultimate parent company:** | | | | | | |
| Cash advances granted (collected) | 25.1 | **P 430,355,411** | P 400,425,054 | **P 29,930,357** | P 380,708,845 | (P 19,416,209) |
| Advances from purchase of land | 25.2 | **(4,604,167,018)** | (4,644,167,018) | **40,000,000** | - | 595,000 |
| Transfer of parcels of land | 25.9 | **262,230,400** | 478,140,000 | **(215,909,600)** | 478,140,000 | - |
| **Associates:** | | | | | | |
| Cash advances granted (collected) | 25.1 | **7,150,430** | 6,782,580 | **367,850** | 320,257 | 351,142 |
| Rentals | 25.3 | **-** | - | **55,405** | 198,412 | 194,064 |
| **Joint ventures:** | | | | | | |
| Cash advances granted (collected) | 25.1 | **96,067,379** | 95,503,565 | **563,814** | 317,640 | (7,411,084) |
| Construction contracts | 25.4 | **28,912,993** | 28,912,993 | **-** | - | 311,431 |
| **Related parties under common ownership and management:** | | | | | | |
| Cash advances granted (collected) | 25.1 | **179,755,559** | 172,271,510 | **7,484,049** | (375,160,772) | 15,863 |
| Cash advances paid (obtained) | 25.2 | **(7,007,796)** | (428,838) | **(6,578,958)** | 8,960,439 | (2,206,515) |
| Association dues | 25.6 | **32,508,043** | 21,216,743 | **26,993,200** | 24,441,174 | 15,069,868 |
| Contracts of services | 25.7 | **-** | - | **28,254,600** | 9,073,066 | 3,608,449 |
| Other income | 25.5 | **-** | - | **14,400,000** | 14,400,000 | 24,625,029 |
| Rentals | 25.3 | **-** | - | **115,795** | 260,665 | 254,953 |
| **Stockholders:** | | | | | | |
| Cash advances granted (collected) | 25.1 | **74,993,907** | 52,100,090 | **22,893,817** | (89,077,364) | 13,860,186 |
| Cash advances paid (obtained) | 25.2 | **-** | (11,461,396) | **11,461,396** | (1,219,082) | (2,050,270) |
| Purchase of parcels of land | 25.10 | **-** | - | **-** | 67,000,000 | - |
| **Key management personnel –** | | | | | | |
| Compensation | 25.8 | **-** | - | **53,464,128** | 54,330,443 | 51,130,395 |
| **Retirement Fund** | 25.11 | **42,644,803** | - | **42,644,803** | - | - |

The outstanding balance of receivables and payables from these transactions are unsecured, noninterest-bearing and due upon demand, unless otherwise stated.

The Group's outstanding receivables with related parties were subjected to impairment using PFRS 9's ECL model. These receivables have substantially the same risk characteristics as the trade receivables. As such, the expected loss rates for trade receivables are a reasonable approximation of the loss rates for receivables from related parties. Impairment losses in 2018, 2017 and 2016 are recognized as part of Impairment loss on financial assets under General and Administrative Expenses account in the consolidated statements of profit or loss (see Note 22) while the disclosure on allowance for ECL is presented in Note 5.2(b).

### *25.1 Advances to Related Parties*

In the normal course of business, the Group grants unsecured and noninterest-bearing cash advances to related parties for working capital requirements and other purposes. The advances have no fixed repayment terms and collectible upon demand.

Certain advances to related parties are secured by an undertaking of another related party to pay in case of default. These advances are presented as Advances to related parties under Receivables account in the consolidated statements of financial position (see Note 9).

| | 2018 | 2017 |
|---|---|---|
| Ultimate parent company | **P 430,355,411** | P 400,425,054 |
| Related parties under common ownership and management | **179,755,559** | 172,271,510 |
| Joint ventures | **96,067,379** | 95,503,565 |
| Stockholders | **74,993,907** | 52,100,090 |
| Associates | **7,150,430** | 6,782,580 |
| | **P 788,322,686** | P 727,082,799 |

In 2017, the Group, WHI and a certain related party under common ownership and management executed an Assumption of Liability Agreement whereas WHI assumes the rights, duties, liabilities, and financial obligations of the related party to the Group.

The movements in the carrying amount of the advances to related parties in 2018 and 2017 are as follows:

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Balance at beginning of year | | **P 727,082,799** | P 809,974,193 |
| Additions | | **126,377,851** | 102,693,465 |
| Collections | | **( 65,137,964)** | ( 116,271,856) |
| Reclassification | | **-** | ( 2,313,003) |
| Offsetting | 15(b), 25.10 | **-** | ( 67,000,000) |
| Balance at end of year | | **P 788,322,686** | P 727,082,799 |

### *25.2 Advances from and Due to Related Parties*

The Group has outstanding amount due to the Ultimate Parent Company representing a payable for certain land acquired in prior years. The Group also obtains cash advances from other related parties to assist its daily operational and other requirements.

Advances from and due to related parties, which is presented as current liabilities (as restated – see Note 27.5), consist of:

| | 2018 | 2017 |
|---|---|---|
| Ultimate parent company | **P 4,604,167,018** | P 4,644,167,018 |
| Related party under common ownership and management | **7,007,796** | 428,838 |
| Stockholders | **-** | 11,461,396 |
| | **P 4,611,174,814** | P 4,656,057,252 |

Advances from and due to related parties arise from and are considered as financing activities. The reconciliation of the carrying amounts of these accounts with movements during the reporting periods as presented in the consolidated statements of cash flows is shown below.

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **P 4,656,057,252** | P 4,663,798,609 |
| Repayments | **( 44,882,438)** | ( 8,960,439) |
| Additions | **-** | 1,219,082 |
| Balance at end of year | **P 4,611,174,814** | P 4,656,057,252 |

Outstanding balances with related parties are unsecured, noninterest-bearing, have no fixed repayment and settlement terms, except as disclosed in Note 5.3, and are presented as Advances from and Due to Related Parties account in the consolidated statements of financial position.

### *25.3 Rentals*

The Group leases certain parcels of land and portion of a building to its associates and other related parties under common ownership and management for terms ranging from one to 12 years and with annual escalation rate of 2.00%. Rental income from these transactions amounted to P0.2 million in 2018, P0.5 million in 2017 and P0.4 million in 2016, and included as part of Rentals under Revenues account in the consolidated statements of profit or loss. There were no outstanding receivables from these transactions as of December 31, 2018 and 2017.

### *25.4 Contract Revenues and Receivables*

The Group and BRADCO entered into certain construction contracts in 2016 and prior years whereby the Group undertook to complete the design and construction of the roads and drainage system of certain lots situated at ABP. The construction was completed in 2017. The related contract receivable, which is unsecured, noninterest-bearing and payable in 90 days, amounting to P27.1 million and retention receivable amounting to P1.8 million as of December 31, 2018 and 2017, are included as part of Contract receivables and Retention receivables under Receivables account in the consolidated statements of financial position (see Note 9).

### *25.5 Other Income from Rendering of Administrative Services*

The Group recognized income amounting to P14.4 million in 2018 and 2017 and P24.6 million in 2016 from rendering of various administrative services to its related parties and are included as part of Other Operating Income account in the consolidated statements of profit or loss (see Note 21.3). There are no outstanding receivables related to these transactions.

### *25.6 Association Dues*

The Group incurred association dues amounting to P27.0 million, P24.4 million and P15.1 million in 2018, 2017 and 2016, respectively, as member of Aseana Business Park Estate Association and Aseana Power Station Association, Inc. which are presented as part of Association dues under General and Administrative Expenses account in the consolidated statements of profit or loss (see Note 22). Outstanding payables, which are due upon demand, related to these transactions amounting to P32.5 million and P21.2 million as of December 31, 2018 and 2017, respectively, are included as part of Trade payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 18).

### *25.7 Contracts of Services*

On October 13, 2010, the Group renewed its contract of services with a certain related party under common ownership and management. Under such contract, the same related party will provide consultancy, management and labor services to the Group upon the latter's request. Total costs incurred related to these contracts amounted to P28.3 million, P9.1 million and P3.6 million for the years ended December 31, 2018, 2017 and 2016, respectively, and are shown as part of Cost of construction contracts under Costs of Services and Sales account in the consolidated statements of profit or loss (see Note 20.1). There was no outstanding liability related to this transaction as of December 31, 2018 and 2017.

### *25.8 Key Management Personnel Compensation*

Compensation paid to key management personnel consist of short-term benefits, which include among others, salaries and allowances, bonuses and other employee benefits amounting to P53.5 million, P54.3 million and P51.1 million in 2018, 2017 and 2016, respectively. There are no outstanding liabilities arising from this transaction.

### *25.9 Transfer of Land to ARHC*

In 2016, the Group was under negotiation with WHI to purchase its property to be used for the Group's residential project (see Note 10). The purchase transaction was completed in 2017. The property is presented as part of Property Development Costs account and the outstanding liability, which is due upon demand, is presented as part of Trade payables under Trade and Other Payables account in the 2017 consolidated statement of financial position (see Note 18).

### *25.10 Purchase of Parcels of Land*

In 2017, the Group purchased parcels of land from a certain stockholder amounting to P67.0 million. There were no outstanding liabilities related to this transaction as of December 31, 2017 as the related liability was offset against the advances granted to such related party in the same period [see Notes 15(b) and 25.1]. There was no similar transaction in 2018 and 2016.

### *25.11 Transactions with the Retirement Fund*

As discussed in Note 23.2, the Group is in the process of establising a non-contributory post-employment benefit plan that is being administered by a trustee bank. The quoted equity securities included in the plan assets pertain to the shares of the Parent Company measured at its fair value as of December 31, 2018.

## 26. EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

| | 2018 | 2017 (As Restated – see Note 27.5) | 2016 (As Restated – see Note 27.5) |
|---|---|---|---|
| Net profit attributable to the equity holders of the Parent Company | **P 1,911,245,490** | P 1,558,462,597 | P 1,206,692,949 |
| Divided by weighted average number of outstanding common shares* | **3,056,277,650** | 2,716,691,200 | 1,716,691,200 |
| Basic and diluted earnings per share | **P 0.625** | P 0.574 | P 0.703 |

*The Group has no potential dilutive common shares as of December 31, 2018, 2017 and 2016.

## 27. EQUITY

### *27.1 Capital Stock*

The Parent Company's capital stock consists of:

| | Shares | | Amount | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Common shares – P1.00 par value in 2018 and 2017 | | | | |
| Authorized – 4,000.0 million shares in 2018 and 2017 | | | | |
| Issued and outstanding: | | | | |
| Balance at beginning of year | **2,716,691,200** | 1,716,691,200 | **P 2,716,691,200** | P 1,716,691,200 |
| Issuance during the year | **679,172,900** | - | **679,172,900** | - |
| Stock dividends declared | **-** | 1,000,000,000 | **-** | 1,000,000,000 |
| Balance at end of year | **3,395,864,100** | 2,716,691,200 | **P 3,395,864,100** | P 2,716,691,200 |

On March 6, 2018, the Parent Company filed its application with the PSE for the listing of its common shares, which was approved by the PSE on May 23, 2018. Also on March 6, 2018, the Parent Company filed a Registration Statement covering the Initial Public Offering (IPO) of its common shares with the PSE, in accordance with the provisions of the SEC's Securities Regulation Code. Pursuant to its filing with the PSE, on June 29, 2018, the Parent Company issued through the IPO the additional 679,172,800 common shares at P12.00 price per share generating offering proceeds of P8,150.1 million. The related additional paid-in capital arising from the IPO, after deducting transaction costs associated with the issuance of shares, amounted to P6,964.6 million. The common share price closed at P7.8 per share as of December 31, 2018.

In their respective meetings on January 20, 2017, the Parent Company's BOD and stockholders approved the declaration of stock dividends representing 1,000,000,000 common shares or equivalent to P1,000.0 million (see Note 27.3).

In 2015, the Parent Company issued 3,216,910 common shares at par value of P100.00 per share to a certain individual stockholder pursuant to a deed of exchange (see Notes 1.2, 15, 25.9 and 27.4).

As of December 31, 2018, there are 11 holders of the listed common shares owning at least one board lot of 100 shares. The public float lodged with PCD Nominee is counted as one stockholder only.

### *27.2 Revaluation Reserves*

The movements of this account in 2018 and 2017 are as follows:

| | **Investment Properties** (see Note 2.25) | **Retirement Benefit Obligation** (see Notes 23.2 and 24) | **Financial Assets at FVOCI** (see Note 16.2) | **Total** |
|---|---|---|---|---|
| Balance as of January 1, 2018 | P 19,047,893 | (P 28,943,049) | (P 1,040,020) | (P 10,935,176) |
| Remeasurements of post-employment defined benefit plan | - | ( 25,441,148) | - | ( 25,441,149) |
| Fair value gain on financial assets at FVOCI | - | - | 219,645 | 219,645 |
| Other comprehensive income (loss) before tax | | ( 25,441,148) | 219,645 | ( 25,221,503) |
| Tax expense | - | 7,632,344 | - | 7,632,344 |
| Other comprehensive income (loss) after tax | - | ( 17,808,804) | 219,645 | ( 17,589,159) |
| **Balance as of December 31, 2018** | **P 19,047,893** | **(P 46,751,853)** | **(P 820,375)** | **(P 28,524,335)** |
| Balance as of January 1, 2017 | P 19,047,893 | (P 38,980,712) | (P 1,120,135) | (P 21,052,954) |
| Remeasurements of post-employment defined benefit plan | - | 14,339,519 | - | 14,339,519 |
| Fair value gain on financial assets at FVOCI | - | - | 80,115 | 80,115 |
| Other comprehensive income before tax | - | 14,339,519 | 80,115 | 14,419,634 |
| Tax expense | - | ( 4,301,856) | - | ( 4,301,856) |
| Other comprehensive income after tax | - | 10,037,663 | 80,115 | 10,117,778 |
| Balance as of December 31, 2017 | P 19,047,893 | (P 28,943,049) | (P 1,040,020) | (P 10,935,176) |

| | Investment Properties (see Note 2.25) | Retirement Benefit Obligation (see Notes 23.2 and 24) | Financial Assets at FVOCI (see Note 16.2) | Total |
|---|---|---|---|---|
| Balance as of January 1, 2016 | P 19,047,893 | (P 22,249,283) | (P 1,039,440) | (P 4,240,830) |
| Remeasurement of post-employment defined benefit plan | - | ( 23,902,041) | - | ( 23,902,041) |
| Fair value loss on financial assets at FVOCI | - | - | ( 80,695) | ( 80,695) |
| Other comprehensive loss before tax | - | ( 23,902,041) | ( 80,695) | ( 23,982,736) |
| Tax income | - | 7,170,612 | - | 7,170,612 |
| Other comprehensive loss after tax | - | ( 16,731,429) | ( 80,695) | ( 16,812,124) |
| Balance as of December 31, 2016 | P 19,047,893 | (P 38,980,712) | (P 1,120,135) | (P 21,052,954) |

In 2003, certain parcel of land located in Quezon City, classified as property and equipment, was appraised by independent appraisers and resulted in revaluation increment of P19.0 million. In 2007, upon change of the intention of the management, such parcel of land was transferred from property and equipment to investment property at the appraised amount of P30.4 million. As of December 31, 2018, the parcel of land is held by the management for capital appreciation. The amount of revaluation reserves of the land remains to be recognized under equity until the land is derecognized.

### *27.3 Unrestricted Retained Earnings*

Under the Philippine Corporation Code (the Code), stock corporations are prohibited from retaining surplus profits (or retained earnings) in excess of their paid-in capital, except when justified by any of the reasons mentioned in the Code.

In meetings held on December 23, 2013 and October 8, 2012, the Parent Company's BOD approved the appropriation of the unrestricted retained earnings of the Parent Company amounting to P500.0 million and P700.0 million, respectively, necessary to cover the business expansion of the Group as part of its long term corporate strategy. Relative to this, the Group was able to complete two additional buildings under similar nature and purpose of its existing investment properties in 2017 and 2018. Also in 2018, the Group commenced the construction of a new building, which is expected to be completed by the end of 2020. Accordingly, the management has retained the appropriation until the expected completion of the on-going development of its most recent building, which shall add to its existing portfolio of investment properties.

As a matter of policy, stockholders may be entitled to receive, upon declaration by the Parent Company's BOD and subject to the availability of unrestricted retained earnings, dividends equivalent to at least 30% of the prior year's net income after tax based on the Parent Company's audited financial statements as of such year, except when: (i) justified by definite corporate expansion projects or programs approved by the Parent Company's BOD; (ii) when the Group is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or (iii) when it can be clearly shown that retention of earnings is necessary under special circumstances obtaining in the Group, such as when there is a need for special reserves for probable contingencies.

On February 10, 2017, as discussed in Note 27.1, the BOD and stockholders declared P1,000.0 million stock dividends from the Parent Company's unrestricted retained earnings.

### *27.4 Other Reserves*

Other Reserves account in the consolidated statements of financial position includes the excess of the consideration paid by the Group for the additional 40% direct ownership in FI and the excess minority share in net assets of UCTPI over the cost of additional investments acquired by the Group in 2015 which amounted to P297.4 million and P21.4 million, respectively.

### *27.5 Prior Period Restatements and Reclassifications of Accounts*

- *Correction on the Valuation of Investment in Joint Venture*

  As more fully discussed in Note 13.2(a), the Group restated the amount of its investment in joint venture from its fair value at the time of the initial recognition amounting to P2,902.5 million to the original carrying value of certain parcels of land contributed by the Group to ABCC amounting P1,886.5 million. This further resulted in the derecogntion of the corresponding gain on exchange of parcels of land for shares of stock previously recognized amounting to P1,016.0 million and the related deferred tax liability of P101.6 million, or net amount of P914.4 million to the Retained Earnings account as of January 1, 2016.

- *Presentation of Estimated Liability for Land Development Costs*

  The Group derecognized the Estimated Liability for Land Development Costs account amounting to P7,606.4 million and P7,748.4 million as of December 31, 2017 and January 1, 2017, respectively, to present such estimated liability as a net against the related amount of the affected assets when such estimated liability was previously recognized by the Group. The foregoing adjustments resulted in the corresponding adjustments to decrease the balances of Land and Land Development Costs, Investment Properties and Investment in joint venture (representing certain parcels of land contributed by the Group in ABCC and presented under Investments in Associates and Joint Ventures) accounts amounting to P1,369.2 million, P4,514.0 million and P1,723.2 million as of December 31, 2017, and P1,511,2 million, P4,514.0 million and P1,723.2 million as of January 1, 2017, respectively, as these accounts were increased in prior years arising from the previously capitalized estimated development costs of such parcels of land [see Notes 11, 15 and 13.2(a)].

- *Consolidation of ARESM*

  In 2018, the Group restated its 2017 and 2016 consolidated financial statements as a result of an error in accounting for the equity ownership interest over ARESM that should have been included in the consolidation. The Group obtained control in ARESM through its 95.98% equity ownership interest over such subsidiary by capital cash infusion towards the end of 2016. Prior to the restatement, the Group accounted for its investment in ARESM as financial assets at FVOCI since its equity ownership interest was previously determined at 14.00%, which did not represent a control or significant influence.

  Accordingly, the Group accounted for this transaction under the acquisition method of accounting under PFRS 3, *Business Combinations*, since ARESM constitutes a "business" having elements of inputs, processes, and outputs by undertaking strategic consultancy and management services over certain real estate properties [see Notes 2.9 and 3.1(j)]. Management determined that the impact over the applicable reporting periods was not material to the consolidated financial statements as total assets, liabilities, and net income of ARESM only amounted to P15.3 million, P12.8 million and P5.3 million, respectively, as of and for the year ended December 31, 2017 and P9.6 million, P0.9 million and P3.7 million, respectively, as of and for the year ended December 31, 2016.

  The amount of P7.1 million representing the excess of the Group's share in ARESM's fair value of its net assets amounting to P8.4 million over the Group's investment consideration amounting to P1.3 million is recognized as gain from acquisition of a subsidiary under the Other Income account in the 2016 consolidated statement of profit or loss (see Note 21.4).

- The following are the reclassifications made in the Group's 2017 and 2016 consolidated financial statements:

  1) Advances to suppliers amounting to P44.9 million and P170.3 million as of December 31, 2017 and January 1, 2017, respectively, and relating to future application for the construction and development of certain investment properties were reclassified from Receivables account under current assets to Other Non-current Assets account in relation to Philippine Interpretations Committee (PIC) Question & Answer (Q&A) No. 2018-15, PAS 1 – *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* issued in 2018 (see Notes 9 and 16);

  2) Advances to related parties amounting to P119.5 million and P120.4 million as of December 31, 2017 and January 1, 2017, respectively, were reclassified from Advances to and Investments in Associates, Joint Ventures and Other Related Parties account under non-current assets to Advances to related parties under current Receivables as the advances have no definite repayment terms (see Notes 9, 13 and 25.1);

3) Refundable deposits amounting to P19.0 million and P24.3 million as of December 31, 2017 and January 1, 2017, respectively, were reclassified from Receivables account under current assets to Other Non-current Assets account as these deposits are expected to be recovered for more than 12 months from the end of the reporting periods (see Notes 9, 13 and 25.1);

4) Project advances amounting to P86.7 million and P84.4 million as of December 31, 2017 and January 1, 2017, respectively, were reclassified from Advances to related parties under Receivables and Advances to and Investments in Associates, Joint Ventures and Other Related Parties accounts to Other Non-current Assets account as this account is expected to be recovered in the form of land (see Notes 9, 13 and 16);

5) Certain portion of Retention payables amounting to P7.5 million and P7.5 million as of December 31, 2017 and January 1, 2017, respectively, relating to construction and development of certain investment properties were reclassified from current Trade and Other Payables account to non-current Deposits and Advances account as the expected payment of these remaining payables, net of recoupment by the contractors, is for more than 12 months from the completion date of the construction and development (see Note 18);

6) Due to a related party amounting to P4,343.6 million as of December 31, 2017 and January 1, 2017 relating to the outstanding payable from the purchase of land in previous years were reclassified from a non-current liability to a current liability as this payable has no definite repayment terms unless demanded (see Note 25.2); and,

7) Commission expense amounting to P64.5 million in 2017 and P12.7 million in 2016 and relating to real estate and leasing transactions were reclassified from General and Administrative Expenses account to Selling Expenses account (see Note 22).

- The Group also reclassified certain line items in the 2017 and 2016 consolidated statements of profit or loss to conform to the presentation of the current year which included Income from rendering of administrative and other services and other incidental income from operations, and Gain on sale of investment property from Other Income account to Other Operating Income account.

The effects of the restatements on the assets, liabilities, and equity accounts are summarized below.

| | As of December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | As previously reported | Effect of adoption of PFRS 9 | Effect of adoption of PFRS 15 | Effect of prior period errors | Effect of reclassifications | As restated |
| *Changes in Assets* | | | | | | |
| *Current Assets* | | | | | | |
| Cash and cash equivalents | P 1,431,417,365 | P - | P - | P 13,121,447 | P - | P 1,444,538,812 |
| Receivables - net | 2,330,700,527 | ( 44,340,516) | ( 12,834,718) | 1,949,963 | ( 51,602,860) | 2,223,872,396 |
| Contract asset | - | - | 47,301,272 | - | - | 47,301,272 |
| Land development costs | 3,323,617,571 | - | - | ( 1,369,179,885) | - | 1,954,437,686 |
| Property development costs | 593,004,032 | - | 2,104,469 | - | - | 595,108,501 |
| Other current assets | 533,396,960 | - | 18,528,606 | 70,230 | - | 551,995,796 |
| *Non-current Assets* | | | | | | |
| Receivables | 1,916,924,794 | - | ( 107,234,590) | - | - | 1,809,690,204 |
| Advances to and investments in subsidiaries, associates, joint ventures and other related parties | 3,035,348,266 | - | - | ( 2,739,226,251) | ( 119,532,475) | 176,589,540 |
| Investment properties | 15,622,693,051 | - | - | ( 4,514,005,200) | - | 11,108,687,851 |
| Deferred tax assets | - | - | - | 22,357,274 | - | 22,357,274 |
| Other non-current assets | 119,560,933 | - | 5,747,731 | ( 1,125,988) | 171,135,335 | 295,318,011 |
| Effect in total assets | P29,050,602,055 | (P 44,340,516) | (P 46,387,230) | (P8,586,039,410) | P - | P20,373,835,899 |
| *Changes in Liabilities* | | | | | | |
| *Current Liabilities* | | | | | | |
| Trade and other payables | 1,093,125,793 | - | 15,460,561 | 12,813,131 | ( 7,541,043) | 1,113,858,443 |
| Contract liability | - | - | 124,328,053 | - | - | 124,328,053 |
| Advances from and due to related parties | 312,485,234 | - | - | - | 4,343,572,018 | 4,656,057,252 |
| Estimated liability for land development cost | 570,710,150 | - | - | ( 570,710,150) | - | - |
| Deposit and advances | 540,604,530 | - | ( 235,058) | - | - | 540,369,472 |
| Reserve for property development | 101,054,804 | - | ( 101,054,804) | - | - | - |
| Deferred gross profit on real estate sales | 30,536,000 | - | ( 30,536,000) | - | - | - |
| *Non-current Liabilities* | | | | | | |
| Due to a related party | 4,343,572,018 | - | - | - | ( 4,343,572,018) | - |
| Estimated liability for land development cost | 7,035,709,522 | - | - | ( 7,035,709,522) | - | - |
| Deposit and advances | 573,963,532 | - | - | - | 7,541,043 | 581,504,575 |
| Reserve for property development | 42,749,889 | - | ( 42,749,889) | - | - | - |
| Deferred gross profit on real estate sales | 17,844,231 | - | ( 17,844,231) | - | - | - |
| Deferred tax liabilities - net | 588,750,291 | ( 13,302,155) | ( 33,205) | ( 79,246,891) | - | 496,168,039 |
| Effect in total liabilities | P18,793,707,566 | (P 13,302,155) | (P 52,664,573) | (P7,672,853,432) | P - | P11,054,887,406 |
| *Change in Equity* | | | | | | |
| Retained earnings | P 7,168,150,683 | (P 31,038,361) | P 6,277,343 | (P 913,184,978) | P - | P 6,230,204,687 |

| | As of December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | As previously reported | Effect of adoption of PFRS 9 | Effect of adoption of PFRS 15 | Effect of prior period errors | Effect of reclassifications | As restated |
| *Changes in Assets* | | | | | | |
| *Current Assets* | | | | | | |
| Cash and cash equivalents | P 815,171,402 | P - | P - | P 4,344,363 | P - | P 819,515,765 |
| Receivables - net | 2,140,590,942 | ( 43,308,299 ) | ( 17,738,019) | 4,415,539 | ( 179,189,337 ) | 1,904,770,826 |
| Contract asset | - | - | 684,636 | - | - | 684,636 |
| Land development costs | 3,519,847,473 | - | | ( 1,511,166,983 ) | - | 2,008,680,490 |
| Property development costs | 24,286,634 | - | 46,603 | - | - | 24,333,237 |
| Other current assets | 263,196,627 | - | 1,096,065 | 655,915 | - | 264,948,607 |
| *Non-current Assets* | | | | | | |
| Advances to and investments in subsidiaries, associates, joint ventures and other related parties | 3,037,163,264 | - | - | ( 2,739,226,251 ) | ( 120,354,496 ) | 177,582,517 |
| Investment properties | 14,998,276,590 | - | - | ( 4,514,005,200 ) | - | 10,484,271,390 |
| Other non-current assets | 77,936,177 | - | 3,089,952 | ( 1,144,193 ) | 299,543,833 | 379,425,769 |
| Effect in total assets | P 26,798,215,075 | (P 43,308,299 ) | (P 12,820,763 ) | ( P8,756,126,810 ) | P - | P17,985,959,203 |
| *Changes in Liabilities* | | | | | | |
| *Current Liabilities* | | | | | | |
| Trade and other payables | 531,301,609 | - | 119,757 | 865,241 | ( 7,754,760) | 524,531,847 |
| Contract liability | - | - | 6,154,956 | - | - | 6,154,956 |
| Advances from and due to related parties | 320,226,591 | - | - | - | 4,343,572,018 | 4,663,798,609 |
| Estimated liability for land development cost | 477,517,753 | - | - | ( 477,517,753 ) | - | - |
| Deposit and advances | 314,375,710 | - | 291,283 | - | - | 314,666,993 |
| Reserve for property development | 4,649,584 | - | ( 4,649,584 ) | - | - | - |
| Deferred gross profit on real estate sales | 792,504 | - | ( 792,504 ) | - | - | - |
| *Non-current Liabilities* | | | | | | |
| Due to a related party | 4,343,572,018 | - | - | - | ( 4,343,572,018 ) | - |
| Estimated liability for land development cost | 7,270,889,017 | - | - | ( 7,270,889,017 ) | - | - |
| Deposit and advances | 702,906,705 | - | - | - | 7,754,760 | 710,661,465 |
| Reserve for property development | 13,585,695 | - | ( 13,585,695 ) | - | - | - |
| Deferred gross profit on real estate sales | 2,315,628 | - | ( 2,315,628 ) | - | - | - |
| Deferred tax liabilities - net | 390,685,191 | ( 12,992,490 ) | 586,996 | ( 101,604,166 ) | - | 276,675,531 |
| Effect in total liabilities | P18,111,245,724 | (P 12,992,490 ) | (P 14,190,419 ) | ( P7,849,145,695 ) | P - | P10,234,917,120 |
| *Change in Equity* | | | | | | |
| Retained earnings | P 6,607,669,358 | (P 30,315,809 ) | P 1,369,656 | (P 906,981,115 ) | P - | P 5,671,742,090 |

| | As of January 1, 2016 | | | |
|---|---|---|---|---|
| | As previously reported | Effect of adoption of PFRS 9 | Effect of prior period errors | As restated |
| *Changes in Assets, Liabilities and Equity* | | | | |
| *Current Assets* | | | | |
| Receivables – net | P 2,932,449,397 | (P 25,953,325) | P - | P 2,906,496,072 |
| Land and land development costs | 3,946,538,413 | - | ( 1,721,053,954) | 2,225,484,459 |
| Investment properties | 15,250,353,443 | - | ( 4,672,309,764) | 10,578,043,679 |
| *Non-current Assets* | | | | |
| Advances to and investments in subsidiaries, associates joint ventures, and other related parties | 3,057,777,220 | ( 14,105,208) | ( 1,723,234,587) | 1,320,437,425 |
| *Non-current Liabilities* | | | | |
| Deferred tax liabilities – net | ( 188,709,405) | 12,017,560 | ( 101,604,166) | 278,296,011 |
| Estimated liability for land development costs | 8,116,598,305 | - | ( 8,116,598,305) | - |
| *Change in Equity* | | | | |
| Retained earnings | P 5,407,477,612 | (P 28,040,973) | (P 914,387,498) | P 4,465,049,141 |

The effects of prior period adjustments on certain line items in the consolidated statements of profit or loss for the years ended December 31, 2017 and 2016 are summarized below.

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | As previously reported | Effect of adoption of PFRS 9 | Effect of adoption of PFRS 15 | Effect of consolidation of ARESM | Effect of reclassifications | As restated |
| *Revenues* | | | | | | |
| Rentals: | | | | | | |
| Land | P 919,417,814 | P - | P - | P - | P - | P 919,417,814 |
| Building | 429,701,872 | - | - | - | - | 429,701,872 |
| Other revenues | 157,900,022 | - | ( 66,212,842) | - | - | 91,687,180 |
| Construction contracts | 202,132,945 | - | - | - | - | 202,132,945 |
| Sale of condominium units | 213,784,261 | - | ( 166,667,680) | - | - | 47,116,581 |
| Land sales | 1,088,290,000 | - | - | - | - | 1,088,290,000 |
| Total revenues | 3,011,226,914 | - | ( 232,880,522) | - | - | 2,778,346,392 |
| *Cost of Services and Sales* | | | | | | |
| Rentals | ( 201,962,298) | - | 66,212,842 | - | | ( 135,749,456) |
| Condominium units sold | ( 157,266,639) | - | 126,934,385 | - | - | ( 30,332,254) |
| Construction contracts | ( 132,234,603) | - | - | - | - | ( 132,234,603) |
| Land | ( 141,520,283) | - | - | - | - | ( 141,520,283) |
| Deferred gross profit | ( 45,772,044) | - | 45,772,044 | - | - | - |
| Total cost of sales and services | ( 678,755,867) | - | 238,919,271 | - | - | ( 439,836,596) |
| *Other Operating Income (Expenses)* | | | | | | |
| General and administrative expenses | ( 461,763,755) | ( 1,032,217) | - | ( 13,996,116) | 64,518,173 | ( 412,273,915) |
| Selling expenses | ( 3,640,829) | | 6,854,764 | - | ( 64,518,173) | ( 61,304,238) |
| Other operating income | - | - | - | 10,072,468 | 283,441,563 | 293,514,031 |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | As previously reported | Effect of adoption of PFRS 9 | Effect of adoption of PFRS 15 | Effect of consolidation of ARESM | Effect of reclassifications | As restated |
| Finance costs | (P 72,107,089) | P - | P - | P - | P - | (P 72,107,089) |
| Finance income | 15,769,771 | | ( 8,606,028) | - | - | 7,163,743 |
| Other income | 25,755,500 | - | - | - | ( 25,755,500) | - |
| Share in net losses of associates and joint venture | ( 992,977) | - | - | - | - | ( 992,977) |
| Gain on sale of investment property | 257,686,063 | - | - | - | ( 257,686,063) | - |
| Tax income (expense) | ( 533,370,371) | 309,665 | 620,200 | ( 2,280,213) | - | ( 534,720,719) |
| Net profit | 1,559,807,360 | ( 722,552) | 4,907,685 | ( 6,203,861) | - | 1,557,788,632 |
| Earnings per share | 0.574 | - | - | - | - | 0.574 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | As previously reported | Effect of adoption of PFRS 9 | Effect of adoption of PFRS 15 | Effect of consolidation of ARESM | Effect of reclassifications | As restated |
| *Revenues* | | | | | | |
| Rentals: | | | | | | |
| Land | P 860,514,881 | P - | P - | P - | P - | P 860,514,881 |
| Building | 344,601,606 | - | - | - | - | 344,601,606 |
| Other revenues | 121,480,554 | - | ( 55,550,547) | - | - | 65,930,007 |
| Construction contracts | 231,163,640 | - | - | - | - | 231,163,640 |
| Sale of condominium units | 21,919,360 | - | ( 21,234,724) | - | - | 684,636 |
| Land sales | 600,656,000 | - | - | - | - | 600,656,000 |
| Total revenues | 2,180,336,041 | - | ( 76,785,271) | - | - | 2,103,550,770 |
| *Cost of Services and Sales* | | | | | | |
| Construction contracts | ( 201,953,484) | - | - | - | - | ( 201,953,484) |
| Rentals | ( 185,637,424) | - | ( 55,550,547) | - | - | ( 130,086,877) |
| Land | ( 120,375,150) | - | - | - | - | ( 120,375,150) |
| Condominium units sold | ( 18,727,355) | - | ( 18,281,881) | - | - | ( 445,474) |
| Deferred gross profit | ( 3,108,132) | - | ( 3,108,132) | - | - | - |
| Total cost of sales and services | ( 529,801,545) | - | ( 76,940,560) | - | - | ( 452,860,985) |
| *Other Operating Income (Expenses)* | | | | | | |
| General and administrative expenses | ( 283,216,177) | ( 3,249,765) | - | - | 12,669,396 | ( 273,796,546) |
| Selling expenses | ( 10,491,021) | - | 1,961,011 | | ( 12,669,396) | ( 21,199,406) |
| Other operating income | - | - | - | - | 368,359,464 | 368,359,464 |
| *Other Income* | | | | | | |
| Finance costs | ( 83,790,875) | - | - | - | - | ( 83,790,875) |
| Finance income | 4,120,195 | - | ( 159,647) | - | - | 3,960,548 |
| Other income | 55,610,000 | - | - | 7,406,382 | ( 55,906,255) | 7,110,127 |
| Share in net losses of associates and joint venture | ( 5,297,857) | - | - | - | - | ( 5,297,857) |
| Gain on sale of investment property | 312,453,209 | - | - | - | ( 312,453,209) | - |
| Tax income (expense) | ( 437,417,058) | 974,930 | ( 586,996) | - | - | ( 437,029,124) |
| Net profit | 1,202,504,913 | ( 2,274,836) | 1,369,657 | 7,406,382 | - | 1,209,006,116 |
| Earnings per share | 0.699 | ( 0.001) | 0.001 | 0.004 | - | 0.703 |

The effects of prior period adjustments on certain line items in the consolidated statements of cash flows for the years ended December 31, 2017 and 2016 are summarized below.

| | December 31, 2017 | | |
|---|---|---|---|
| | As previously reported | Effect of restatements | As restated |
| Profit before tax | P 2,093,177,731 | (P 668,380) | P 2,092,509,351 |
| *Cash flows from operating activities* | | | |
| Adjustment for – | | | |
| Finance income | ( 15,760,377) | 8,606,028 | ( 7,154,349) |
| Working capital changes: | | | |
| Increase in receivables | ( 423,240,357) | ( 31,185,443) | ( 454,425,800) |
| Increase in contract assets | - | ( 46,616,636) | ( 46,616,636) |
| Decrease in land and land development costs | 141,520,283 | ( 141,987,098) | ( 466,815) |
| Increase in property development costs | ( 568,717,398) | ( 2,057,866) | ( 570,775,264) |
| Increase in other assets | ( 577,530,165) | 106,605,444 | ( 470,924,721) |
| Increase in trade and other payables | 561,824,185 | 27,502,412 | 589,326,597 |
| Increase in contract liability | - | 118,173,097 | 118,173,097 |
| Decrease in estimated liability for land development costs | ( 141,987,097) | 141,987,097 | - |
| Increase in deposits and advances | 95,836,052 | ( 740,058) | 95,095,994 |
| Increase in reserve for property development | 125,569,414 | ( 125,569,414) | - |
| Increase in deferred gross profit on real estate sales | 45,272,099 | ( 45,272,099) | - |
| Effect of changes on cash flows from operating activities | 1,245,201,420 | 8,777,084 | 1,253,978,504 |
| *Cash flows from investing activities* | | | |
| Additional advances to related parties | 13,578,391 | ( 116,271,856) | ( 102,693,465) |
| Collection of advances to associates, joint ventures and other related parties | - | 116,271,856 | 116,271,856 |
| Effect of changes on cash flows from investing activities | ( 351,757,833) | - | ( 351,757,833) |
| Net increase in cash and cash equivalents | 616,245,963 | 8,777,084 | 625,023,047 |
| Cash and cash equivalents at beginning of year | 815,171,402 | 4,344,363 | 819,515,765 |
| Cash and cash equivalents at end of year | P 1,431,417,365 | P 13,121,447 | P 1,444,538,812 |

| | December 31, 2016 | | |
|---|---|---|---|
| | As previously reported | Effect of restatements | As restated |
| Profit before tax | P 1,639,921,971 | P 6,113,269 | P 1,646,035,240 |
| *Cash flows from operating activities* | | | |
| Adjustments for: | | | |
| Finance income | ( 3,152,655) | 159,647 | ( 2,993,008) |
| Gain on acquisition of a subsidiary | - | ( 7,110,127) | ( 7,110,127) |
| Working capital changes: | | | |
| Increase in receivables | ( 671,346,401) | 320,371,970 | ( 350,974,431) |
| Increase in contract assets | - | ( 684,636) | ( 684,636) |
| Decrease in land and land development costs | 120,375,150 | ( 90,073,393) | 30,301,757 |
| Increase in property development costs | ( 24,286,634) | ( 46,603) | ( 24,333,237) |
| Increase in other assets | ( 145,782,227) | ( 304,026,105) | ( 449,808,332) |
| Decrease in trade and other payables | ( 112,977,288) | ( 7,635,004) | ( 120,612,292) |
| Increase in contract liability | - | 6,154,956 | 6,154,956 |
| Decrease in estimated liability for land development costs | ( 90,073,394) | 90,073,394 | - |
| Increase in deposits and advances | ( 76,391,732) | 8,046,043 | ( 68,345,689) |
| Increase in reserve for property development | 18,235,279 | ( 18,235,279) | - |
| Increase in deferred gross profit on real estate sales | 3,108,132 | ( 3,108,132) | - |
| Effect of changes on cash flows from operating activities | 495,436,427 | - | 495,436,427 |
| *Cash flows from investing activities* | | | |
| Net collection from (additional advances to) and investments in associates, joint ventures and other related parties | ( 28,673,762) | ( 83,845,487 ) | ( 112,519,249) |
| Collection of advances to associates, joint ventures and other related parties | - | 83,845,487 | 83,845,487 |
| Acquisition of financial assets at FVOCI | ( 1,250,000) | 1,250,000 | - |
| Acquisition of a subsidiary | - | ( 1,250,000) | ( 1,250,000) |
| Effect of changes on cash flows from investing activities | ( 20,046,247) | - | ( 20,046,247) |
| Cash and cash equivalent of new subsidiary | - | 4,344,363 | 4,344,363 |
| Cash and cash equivalents at end of year | P 815,171,402 | P 4,344,363 | P 819,515,765 |

## 28. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

### *28.1 Operating Leases – Group as a Lessor*

The Group is a lessor under operating leases covering certain real estate properties presented in the consolidated statements of financial position as Investment Properties. The lease agreements have a term of one year, subject to annual renewal and monthly payment of minimum rental plus additional rental based on certain percentage of the lessee's gross sales. Lease agreements with large tenants have terms ranging from five to 45 years with monthly rental payment on certain rate per square meter of leased area subject to annual escalation rates of 5.00% to 10.00% per annum.

The future minimum lease collections under these operating leases as of the end of the reporting periods are as follows:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **P 1,051,641,523** | P 678,351,396 |
| After one year but not more than five years | **3,965,602,534** | 2,659,730,237 |
| More than five years | **32,173,993,819** | 32,772,787,185 |
| | **P 37,191,237,876** | P 36,110,868,818 |

The total rent income recognized on investment properties amounted to P1,727.4 million, P1,349.1 million and P1,205.1 million, including rent income resulting from the application of the straight-line basis of revenue recognition in accordance with PAS 17 amounting to P716.8 million, P605.9 million and P749.4 million in 2018, 2017 and 2016, respectively, and are presented as Land and Building Rentals under Revenues account in the consolidated statements of profit or loss.

Contingent rent, which pertains to a certain percentage share in the lessees' revenues, is included as part of total rent income amounting to P13.0 million, P13.1 million and P7.6 million in 2018, 2017 and 2016, respectively.

### *28.2 Legal Claims*

There are pending claims and legal actions filed by the Group or against the Group arising from the normal course of its business. Management believes that the ultimate liability, if any, with respect to such litigations, claims and disputes will not materially affect the financial position and results of operations of the Group.

### *28.3 Deficiency Tax Assessments*

The Group has certain final deficiency tax assessment and has received letters of authority from the Bureau of Internal Revenue (BIR), pursuant to which the BIR has sought to investigate certain tax periods of the Group and consequently examine certain books, records and accounts that relate to transactions in the ordinary course of business. There are final deficiency tax assessments in the ordinary course of business against the Parent Company that are pending with the BIR covering taxable years 2015, 2013 and 2009. Pursuant to the Group's policy of addressing such actions in line with prudent business practice, the Group has engaged tax counsels and advisors in relation to these matters.

As of December 31, 2018, the final deficiency tax assessments are still under protest. Management believes that the Group has enough basis in law, Supreme Court and Court of Tax Appeals decisions and evidence to support their claim; hence, no provisions were recognized in the consolidated financial statements.

### *28.4 Capital Commitments in Aseana City*

Aseana City is an integrated community currently being developed by the Group, which is situated on the land reclaimed by the Group and home of several entertainment, commercial and residential establishments. The Group has capital commitments pertaining to the estimated development costs (i.e., civic and structural works; power, water and telecommunication distribution systems; roadworks and streetlights; drainage and sewerage systems; and, the estimated restoration costs thereto) of such parcels of land whereby the Group has an unconditional obligation to complete the development of the parcels of land in accordance with the entire estate of Aseana City. The estimated liability for land development costs is based on the estimates of the engineering department of the Parent Company. The details of these capital commitments in Aseana City are as follows:

| | Land and Land Development Costs (see Note 11) | Land under Investment Properties (see Note 15) | Investment in joint venture [see Note 13.2(a)] | Total |
|---|---|---|---|---|
| **December 31, 2018:** | | | | |
| Gross valuation | P 3,323,577,493 | P13,234,248,653 | P 1,850,297,540 | P 18,408,123,686 |
| Estimated liability for land development costs | ( 1,161,368,148) | ( 4,514,005,193) | ( 1,723,234,587) | ( 7,398,607,928) |
| **Net amounts** | **P 2,162,209,345** | **P 8,720,243,460** | **P 127,062,953** | **P 11,009,515,758** |
| December 31, 2017: | | | | |
| Gross amounts | P 3,323,617,571 | P13,234,248,660 | P 1,850,297,540 | P 18,408,163,771 |
| Estimated liability for land development costs | ( 1,369,179,885) | ( 4,514,005,200) | ( 1,723,234,587) | ( 7,606,419,672) |
| Net amounts | P 1,954,437,686 | P 8,720,243,460 | P 127,062,953 | P 10,801,744,099 |

The movements in the estimated liability for land development costs are as follows:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **P 7,606,419,672** | P 7,748,406,770 |
| Settlements | **( 207,811,744)** | ( 141,987,098) |
| Balance at end of year | **P 7,398,607,928** | P 7,606,419,672 |

### *28.5 Reclaimed Land and Others*

The Group's existing land holdings in Aseana City, which were obtained pursuant to certain series of agreements involving reclamation and related projects with the Philippine Government, are entirely located on reclaimed foreshore land. Although the Group holds registered titles to these land holdings, Philippine law provides that issuance of titles does not create or vest title, but only constitutes evidence of ownership over such properties. In view of this, the Group's ownership, registration, and possession of titles and actual possession of these land holdings do not negate the possibility that the Philippine Government or third parties may at any time, file lawsuits to challenge the Group's rights to these land holdings. While the PRA and the Philippine Office of the Government Corporate Counsel (OGCC) are of the opinion that the Group's titles can no longer be invalidated, there is no assurance that the Philippine Government or third parties will not challenge the Group's rights to such reclaimed lands in the future. Notwithstanding the foregoing, the Group is not aware of the validity of the Group's titles being questioned, impugned, challenged or invalidated by the Philippine Government or any other third party since the time the Group acquired ownership over these land holdings in Aseana City and up to the audit report date. In addition to the opinions of the PRA and OGCC, management believes that the Group has enough basis in law and in the decisions of the relevant courts, to support the validity of its titles and ownership over these subject properties.

There are other commitments, litigations and contingencies that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. As of December 31, 2018, management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Group's consolidated financial statements.

## 29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure that the Group maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions primarily those current and expected future events that affect or likely to affect the real estate and leasing sector. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the ratio of loans and borrowings to total capital and net loans and borrowings to total capital. Loans include all short-term and long-term borrowings while net interest-bearing loans include all short-term and long-term loans net of cash and cash equivalents.

As of December 31, 2018 and 2017, the Group's ratios of net interest-bearing loans to total capital are as follows:

| | Notes | 2018 | 2017 (As Restated – see Note 27.5) |
|---|---|---|---|
| Total loans and borrowings | 17 | **P 1,928,920,000** | P 2,476,902,945 |
| Less: Cash and cash equivalents and short-term placement | 8, 12 | **( 8,949,219,648)** | ( 1,444,538,812) |
| Net loans and borrowings (a) | | **( 7,020,299,648)** | 1,032,364,133 |
| Total equity | | **18,865,978,379** | 9,318,948,493 |
| Net loans and borrowings and equity (b) | | **P11,845,678,731** | 10,351,312,626 |
| Gearing ratio (a/b) | | **-59%** | 10% |

Certain loans with a local bank are subject to a cross default arrangement wherein if the Group or any of its related parties fail to pay or default in the payments of any installment of the principal or interest, or fails to comply with or commits breach or violation of any term, condition or stipulation of any other agreement, contract, or document with the lending bank; the Group's obligation will become due and demandable. The Group has complied with its loan covenants as of December 31, 2018 and 2017.

The Group has no other significant loan covenants in 2018 and 2017 (see Note 17).

## 30. SUPPLEMENTAL INFORMATION ON NON-CASH ACTIVITIES

The following discusses the supplemental information on non-cash activities as presented in the consolidated statements of cash flows for the years ended December 31, 2018, 2017 and 2016:

- In 2018, the Group reclassified its investment in a joint venture which was previously presented under Investments in Associates and Joint Ventures to Investment in Joint Venture Held for Termination amounting to P127.1 million [see Note 13.2(a)]. There was no similar transaction in 2017 and 2016.

- In 2018, 2017 and 2016, capitalized borrowing costs to investment properties amounted to P28.3 million, P16.3 million and P1.4 million, respectively (see Notes 15 and 17).

- On January 20, 2017, the Parent Company's BOD and stockholders approved the declaration of stock dividends representing 1,000,000,000 common shares or equivalent to P1,000.0 million (see Note 27.1). There was no similar transaction in 2018 and 2016.

- In 2017, the Group purchased parcels of land from a certain stockholder amounting to P67.0 million. There was no outstanding liabilities related to this transaction as of December 31, 2017 as the related liability was offset against the advances granted to the related party [see Notes 15(b) and 25.1]. There was no similar transaction in 2018 and 2016.

In 2017 and 2016, the Group sold certain investment properties to third parties with selling price amounting to P400.9 million and P713.1 million, respectively. The outstanding balance from these transactions amounted to P226.1 million as of December 31, 2016 and is presented as part of Installment receivables under Receivables account, which was collected in full in 2017 (see Notes 9 and 15). There was no outstanding receivable from the 2017 transaction. There was no similar transaction in 2018.

- In 2017 and 2016, the Group reclassified certain parcels of land which were previously presented under Land and Land Development Costs to Investment Properties amounting to P54.7 million and P186.5 million, respectively. The reclassification resulted from change in management's intention to hold the related land for rental purposes (see Notes 11 and 15). There was no similar transaction in 2018.

## 31. EVENT AFTER THE END OF THE REPORTING PERIOD

On February 15, 2019, the Parent Company's BOD approved the declaration cash dividends of P0.04 per share or equivalent to P120.0 million to stockholders of record as of March 4, 2019. The dividends shall be paid on March 28, 2019 and shall be taken out of the unrestricted earnings of the Parent Company as of December 31, 2018.

P&A
Grant Thornton

An instinct for growth™

# Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Consolidated Financial Statements

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

T +63 2 988 2288

**The Board of Directors and Stockholders**
**D.M. Wenceslao & Associates, Incorporated and Subsidiaries**
***(A Subsidiary of Wendel Holdings Co., Inc.)***
3rd Floor Aseana Powerstation Building
Pres. Macapagal Avenue
Aseana Business Park, Parañaque City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of D.M. Wenceslao & Associates, Incorporated and Subsidiaries (the Group) for the year ended December 31, 2018, on which we have rendered our report dated February 15, 2019. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, of the Philippine Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 7333697, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 15, 2019

# D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES

**LIST OF SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2018**


| Schedule | Content | Page |
|---|---|---|
| **Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68** | | |
| A | Financial Assets<br>Financial Assets at Fair Value Through Profit or Loss<br>Financial Assets at Fair Value Through Other Comprehensive Income | 1 |
| B | Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties) | 2 |
| C | Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements | 3 |
| D | Intangible/ Other Assets | 4 |
| E | Long-term Debt | 5 |
| F | Indebtedness to Related Parties | 6 |
| G | Guarantees of Securities of Other Issuers | 7 |
| H | Capital Stock | 8 |
| **Others Required Information** | | |
| | Schedule of Relevant Financial Ratios | 9 |
| | Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2018 | 10 - 13 |
| | Reconciliation of Retained Earnings Available for Dividend Declaration* | 14 |
| | Map Showing the Relationship Between and Among the Company and its Related Entities | 15 |


**Information presented herein are based on the separate financial statements of D.M. Wenceslao & Associates, Incorporated*

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule A - Financial Assets
December 31, 2018
*(Amounts in Philippine Pesos)*

| Name of Issuing Entity and Association of Each Issue | Number of Shares or Principal Amount | Amount Shown in the Consolidated Statement of Financial Position | Value Based on Market Quotation at Statement of Condition Date | Income Received and Accrued |
|---|---|---|---|---|
| **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS** | | | | |
| | **Not Applicable** | | | |
| **FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME** | | | | |
| **Equity Securities** | | | | |
| Powersource Philippine Distributed Power Holdings, Inc. | Seventy two million four hundred fifty three thousand seven hundred eighty (72,453,780) | P 72,673,425 | P 72,673,425 | P - |
| Tagaytay Highland International Golf Club Inc. | One (1) | 600,000 | 600,000 | - |
| Tagaytay Midland Golf Club | One (1) | 550,000 | 550,000 | - |
| Quezon City Sport Club | One (1) | 480,000 | 480,000 | - |
| Alphaland City Club | One (1) | 450,000 | 450,000 | - |
| Philippine Long Distance Telephone Company | One (1) | 1,480 | 1,480 | - |
| Philippine Construction Association | One (1) | 1,000 | 1,000 | - |
| | | 74,755,905 | 74,755,905 | - |
| **GRAND TOTAL** | | **P 74,755,905** | **P 74,755,905** | **P -** |

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2018
*(Amounts in Philippine Pesos)*

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Deductions | | Ending Balance | | Balance at End of Period |
|---|---|---|---|---|---|---|---|
| | | | Amounts Collected | Amounts Written-off | Current | Not Current | |
| **Amounts Receivable from Related Parties** | | | | | | | |
| Wendel Holdings Co., Inc. | P 400,425,054 | P 29,930,357 | P - | P - | P 430,355,411 | P - | P 430,355,411 |
| Wendel Vega Marine Carrier | 86,203,591 | 10,338,608 | - | - | 96,542,199 | - | 96,542,199 |
| Stockholders | 52,100,090 | 38,683,701 | 15,789,884 | - | 74,993,907 | - | 74,993,907 |
| Alphaland Bay City Corporation | 50,504,500 | 563,814 | - | - | 51,068,314 | - | 51,068,314 |
| Bay Resources and Development Corporation | 44,999,065 | - | - | - | 44,999,065 | - | 44,999,065 |
| Wendel Ground Improvement, Inc. | 36,059,716 | 9,090 | 5,686,644 | - | 30,382,162 | - | 30,382,162 |
| Urban Agro Products, Inc. | 19,761,533 | 646,944 | 438,580 | - | 19,969,897 | - | 19,969,897 |
| European Resources & Technologies, Inc. | 6,782,580 | 583,565 | 215,717 | - | 7,150,428 | - | 7,150,428 |
| 10k South Concrete Mix | 5,541,105 | - | 713,840 | - | 4,827,265 | - | 4,827,265 |
| Bay Security Services, Inc. | 4,835,115 | 26,483 | - | - | 4,861,598 | - | 4,861,598 |
| Wendel Construction Co., Inc. | 3,904,164 | 28,097,457 | 31,355,516 | - | 646,105 | - | 646,105 |
| Wendel Osaka Realty Corporation | 1,623,129 | 17,483 | - | - | 1,640,612 | - | 1,640,612 |
| Aseana Urban Art Foundation | 1,001,629 | 225,514 | - | - | 1,227,143 | - | 1,227,143 |
| Cagayan Economic Development | 750,000 | - | - | - | 750,000 | - | 750,000 |
| Cagayan Valley Bio Energy | 538,000 | 1,500 | - | - | 539,500 | - | 539,500 |
| Patriot Log Home Asia, Inc. | 2,333 | 25,483 | - | - | 27,816 | - | 27,816 |
| Others | 12,051,195 | 17,227,853 | 10,937,783 | - | 18,341,262 | - | 18,341,265 |
| **TOTAL** | **P 727,082,799** | **P 126,377,851** | **P 65,137,964** | **-** | **P 788,322,683** | **-** | **P 788,322,686** |

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
December 31, 2018
*(Amounts in Philippine Pesos)*

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Deductions | | Ending Balance | | Balance at End of Period |
|---|---|---|---|---|---|---|---|
| | | | Amounts Collected | Amounts Written-off | Current | Not Current | |
| **Amounts Receivable from Related Parties Eliminated During Consolidation:** | | | | | | | |
| Bay Area Holdings, Inc. | P 101,576,397 | P 5,488 | P - | P - | P 101,581,885 | P - | P 101,581,885 |
| Aseana Holdings, Inc. | 99,129,745 | 7,059 | 154,839 | - | 98,981,965 | - | 98,981,965 |
| Boracay International Airport & Dev't Corp. | 48,512,061 | 106,040 | - | - | 48,618,101 | - | 48,618,101 |
| Aseana City Transport & Travel Corp. | 6,577,125 | 2,900 | 2,400 | - | 6,577,625 | - | 6,577,625 |
| Fabricom Realty Development Corporation | 6,064,061 | 70,796 | - | - | 6,134,857 | - | 6,134,857 |
| R-1 Consortium, Inc. | 5,762,383 | 67,281 | - | - | 5,829,664 | - | 5,829,664 |
| Mandaue Land Consortium, Inc. | 3,085,948 | 258,456 | - | - | 3,344,404 | - | 3,344,404 |
| Aseana I.T. Plaza, Inc. | 665,101 | 65,896 | - | - | 730,997 | - | 730,997 |
| Aseana Residential Holdings Corp. | 633,503 | - | 633,503 | - | - | - | - |
| SHLP BBP Realty, Inc. | 198,514 | 11,740 | 7,200 | - | 203,054 | - | 203,054 |
| Portal Holdings, Inc. | - | 266,051 | 56,051 | - | 210,000 | - | 210,000 |
| | **P 272,204,838** | **P 861,707** | **P 853,993** | **P -** | **P 272,212,552** | **-** | **P 272,212,552** |

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule D - Intangible/Other Assets
December 31, 2018
*(Amounts in Philippine Pesos)*

| Description | Beginning Balance | Additions at Cost | Charged to Cost and Expenses | Charged to Other Accounts | Other Changes Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|

**Not Applicable**

**The Group does not have any intangible asset as at December 31, 2018.**

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule E - Long-term Debt
December 31, 2018
*(Amounts in Philipine Pesos)*

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Consolidated Statement of Financial Position | Amount Shown Under Caption"Long-term Debt" in related Consolidated Statement of Financial Position |
|---|---|---|---|
| Bank of the Philippine Islands | | | |
| Loans payable | | P 77,200,000 | P 511,750,000 |
| BDO Unibank, Inc. | | | |
| Loans payable | | 374,970,000 | - |
| Security Bank Philippines | | | |
| Loans payable | | 965,000,000 | - |
| **TOTAL** | | **P 1,417,170,000** | **P 511,750,000** |

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule F - Indebtedness to Related Parties (Non-current Liabilities)

December 31, 2018

*(Amounts in Philippine Pesos)*

| Name of Related Party | Balance at Beginning of Period | Balance at End of Period | Purpose |
|---|---|---|---|

**Not Applicable**

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule G - Guarantees of Securities of Other Issuers
December 31, 2018
*(Amounts in Philipine Pesos)*

| Name of Issuing Entity of Securities Guaranteed by the Company for which This Statement is Filed | Title of Issue of Each Class of Securities Guaranteed | Total Amount Guaranteed and Outstanding | Amount Owned by Person for which This Statement is Filed | Nature of Guarantee |
|---|---|---|---|---|

**Not Applicable**

**The Group does not have any guarantee as at December 31, 2018.**

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule H - Capital Stock

December 31, 2018

*(Amounts in Philippine Pesos)*

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding as Shown Under the Related Statement of Condition Caption | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | Number of Shares Held by | | |
|---|---|---|---|---|---|---|
| | | | | Related Parties | Directors, Officers and Employees | Others |
| Common shares, P1.00 Par Value | 4,000,000,000 | 3,395,864,100 | - | 2,136,554,780 | 578,881,360 | 680,427,960 |

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
Schedule of Financial Indicators for December 31, 2018 and 2017
As required under SRC Rule 68, as amended
For the Years Ended December 31, 2018 and 2017
*(Amounts in Philippine Pesos)*

| | December 31, 2018 | December 31, 2017 (As restated) | December 31, 2018 | December 31, 2017 (As restated) |
|---|---|---|---|---|
| **I. Current/liquidity ratios** | | | | |
| a. Current Ratio | | | | |
| Total Current Assets | 14,766,421,688 | 6,817,254,463 | 1.61 | 0.75 |
| Total Current Liabilities | 9,157,507,402 | 9,091,206,654 | | |
| b. Quick Ratio | | | | |
| [Cash and Cash Equivalents + Receivables - net] | 9,871,737,542 | 3,668,411,208 | 1.08 | 0.40 |
| Total Current Liabilities | 9,157,507,402 | 9,091,206,654 | | |
| **II. Solvency ratios** | | | | |
| a. Solvency Ratio | | | | |
| Earnings Before Interest and Taxes | 2,578,643,738 | 2,157,452,697 | 0.24 | 0.20 |
| Total Liabilities | 10,922,737,201 | 11,054,887,406 | | |
| b. Debt Ratio | | | | |
| Total Loans and Borrowings | 1,928,920,000 | 2,476,902,945 | 0.06 | 0.12 |
| Total Assets | 29,788,715,580 | 20,373,835,899 | | |
| c. Debt-to-Equity Ratio | | | | |
| Total Loans and Borrowings | 1,928,920,000 | 2,476,902,945 | 0.11 | 0.29 |
| Total Equity Attributable to Owners of Parent Company | 18,197,464,904 | 8,659,985,866 | | |
| **III. Asset-to-equity ratio** | | | | |
| Total Assets | 29,788,715,580 | 20,373,835,899 | 1.64 | 2.35 |
| Total Equity Attributable to Owners of Parent Company | 18,197,464,904 | 8,659,985,866 | | |
| **IV. Interest Coverage Ratio** | | | | |
| Earnings Before Interest and Taxes | 2,578,643,738 | 2,157,452,697 | 27.77 | 26.23 |
| Interest Costs* | 92,858,995 | 82,236,991 | | |
| **V. Profitability Ratios** | | | | |
| a. Net Profit Margin | | | | |
| Net Profit | 1,920,796,338 | 1,557,788,632 | 0.89 | 0.56 |
| Revenues | 2,152,326,536 | 2,778,346,392 | | |
| b. Gross Profit Margin | | | | |
| Gross Profit | 1,805,540,716 | 2,338,509,796 | 0.84 | 0.84 |
| Revenues | 2,152,326,536 | 2,778,346,392 | | |
| c. Return on Equity | | | | |
| Net profit | 1,920,796,338 | 1,557,788,632 | 0.14 | 0.20 |
| Average Equity Attributable to Owners of the Parent Company | 13,428,725,385 | 7,875,695,679 | | |
| d. Return on Assets | | | | |
| Net Profit | 1,920,796,338 | 1,557,788,632 | 0.08 | 0.08 |
| Average Total Assets | 25,081,275,740 | 19,179,897,551 | | |

* *Interest expense for bank loans plus capitalized borrowing costs.*

**D.M. Wenceslao & Associates, Incorporated**
**Schedule of Philippine Financial Reporting Standards and Interpretations**
**Adopted by the Securities and Exchange Commission and the**
**Financial Reporting Standards Council as of December 31, 2018**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** | | ✓ | | |
| Conceptual Framework Phase A: Objectives and Qualitative Characteristics | | ✓ | | |
| **Practice Statement Management Commentary** | | | ✓ | |
| ***Philippine Financial Reporting Standards (PFRS)*** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards** | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters** | ✓ | | |
| | Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters** | ✓ | | |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters** | ✓ | | |
| | Amendments to PFRS 1: Government Loans** | ✓ | | |
| | Amendments to PFRS 1: Deletion of Short-term Exemptions** | ✓ | | |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| | Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| | Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation* (*effective January 1, 2019)* | | | ✓ |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments*, with PFRS 4, *Insurance Contracts* | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments (2014) | ✓ | | |
| | Amendments to PFRS 9: Prepayment Features with Negative Compensation* (*effective January 1, 2019)* | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10: Transition Guidance** | ✓ | | |
| | Amendments to PFRS 10: Investment Entities** | ✓ | | |
| | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)* | | | ✓ |
| | Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception** | ✓ | | |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendments to PFRS 11: Transition Guidance** | ✓ | | |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | ✓ | | |
| | Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation (*effective January 1, 2019)* | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 12: Transition Guidance** | ✓ | | |
| | Amendments to PFRS 12: Investment Entities** | ✓ | | |
| | Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception** | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓ |
| **PFRS 15** | Revenue from Contracts with Customers | ✓ | | |
| **PFRS 16** | Leases* *(effective January 1, 2019)* | | | ✓ |
| **PFRS 17** | Insurance Contracts* *(effective January 1, 2021)* | | | ✓ |
| ***Philippine Accounting Standards (PAS)*** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Disclosure Initiative | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7: Disclosure Initiative* *(effective January 1, 2017)* | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events After the Reporting Period | ✓ | | |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| | Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses | ✓ | | |
| | Amendment to PAS 12 - Tax Consequences of Dividends* (*effective January 1, 2019)* | | | ✓ |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendments to PAS 16: Bearer Plants** | ✓ | | |
| | Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 19 (Revised)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans - Employee Contributions | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendments: Net Investment in a Foreign Operation** | ✓ | | |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| | Amendment to PAS 23: Eligibility for Capitalization | ✓ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans** | ✓ | | |
| **PAS 27 (Revised)** | Separate Financial Statements | ✓ | | |
| | Amendments to PAS 27: Investment Entities** | ✓ | | |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | ✓ | | |
| **PAS 28 (Revised)** | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)* | | | ✓ |
| | Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception** | ✓ | | |
| | Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss** | ✓ | | |
| | Amendment to PAS 28: Long-term Interest in Associates and Joint Venture* (*effective January 1, 2019*) | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32** | Financial Instruments: Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendments to PAS 32: Classification of Rights Issues | ✓ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| **PAS 33** | Earnings Per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | | | ✓ |
| | Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | |
| **PAS 40** | Investment Property | ✓ | | |
| | Amendment to PAS 40: Reclassification to and from Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendments to PAS 41: Bearer Plants | | | ✓ |
| ***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)*** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities** | ✓ | | |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 6** | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives** | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives** | ✓ | | |
| **IFRIC 10** | Interim Financial Reporting and Impairment | ✓ | | |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 14** | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction** | ✓ | | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners** | ✓ | | |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments** | ✓ | | |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies** | ✓ | | |
| **IFRIC 22** | Foreign Currency Transactions and Advance Consideration | ✓ | | |
| **IFRIC 23** | Uncertainty Over Income Tax Treatments (effective *January 1, 2019*) | | | ✓ |
| ***Philippine Interpretations - Standing Interpretations Committee (SIC)*** | | | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders** | ✓ | | |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

* These standards will be effective for periods subsequent to 2018 and are not early adopted by the Group.

** These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

**D. M. WENCESLAO & ASSOCIATES, INCORPORATED**
**3rd Floor, Aseana Powerstation Building**
**Pres. Macapagal Avenue, Aseana Business Park, Paranaque City**

**Reconciliation of Retained Earnings Available for Dividend Declaration**
**As of December 31, 2018**

| | |
|---|---|
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year (As Previously Reported)** | P 4,408,212,490 |
| **Effect of Prior Period Adjustments** | ( 998,213,862 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year (As Restated)** | 3,409,998,628 |
| Rent income based on Philippine Accounting Standard (PAS) 17, *Leases* | ( 2,298,453,530 ) |
| Deferred tax income from deferred tax assets | ( 227,211,899 ) |
| Revaluation increment on land | ( 19,047,893 ) |
| Unrealized gross profit on real estate sale | ( 8,901,800 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year (As Adjusted)** | 856,383,506 |
| **Net Profit Realized During the Year** | |
| Net profit per audited financial statements | 1,525,799,058 |
| Non-actual/unrealized income | |
| Deferred tax income from deferred tax assets | ( 4,824,790 ) |
| | 1,520,974,268 |
| **Unappropriated Retained Earnings Available for Dividend Declaration at End of Year** | **P 2,377,357,774** |

**D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES**
SEC Released Amended SRC Rule 68
Annex 68-E
Map Showing the Relationship Between the Company and its Related Parties
December 31, 2018