

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, 2019 and 2018, 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, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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 2019, the Group recognized revenue from rentals of investment properties amounting to P1,772.5 million, which represents 50% of the Group's total revenue. Rental income on long-term leases is 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 recognition from rentals as significant to our audit due to the materiality of the amount of rental revenue, and the significant management judgment and complexity involved in the application of the provisions and terms of the lease agreements relative to the requirements of the applicable accounting standard, Philippine Financial Reporting Standards (PFRS) 16, *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.

The Group's disclosures relating to revenues from rentals are disclosed in Notes 4, 15, 26 and 29.

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, as disclosed in Note 29 to the consolidated financial statements, 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 PFRS 16;
- 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 2019, the Group recognized revenue from sale of condominium units amounting to P547.7 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 collectibility 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.

The details of revenue on sale of condominium units are disclosed in Note 4 to 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 the 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 continuous application of PFRS 15 on its real estate transactions.

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.

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 audit resulting in this independent auditors' report is John Endel S. Mata.

PUNONGBAYAN & ARAULLO



By: John Endel S. Mata
Partner

CPA Reg. No. 0121347
TIN 257-622-627
PTR No. 8116549, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 121347-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002551-040-2019 (until Dec. 15, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 19, 2020

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES
(A Subsidiary of Wendel Holdings Co., Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash and cash equivalents	8	P 5,211,402,211	P 7,549,219,648
Receivables - net	9	2,176,743,945	2,322,517,894
Contract asset	10	54,191,980	63,668,674
Land and land development costs	11	2,012,493,650	2,162,209,345
Property development costs	10	1,168,060,707	711,411,174
Other current assets	12	<u>2,886,384,807</u>	<u>1,854,411,290</u>
Total Current Assets		<u>13,509,277,300</u>	<u>14,663,438,025</u>
NON-CURRENT ASSETS			
Receivables	9	3,209,017,185	2,488,826,277
Contract asset	10	194,820,970	102,983,663
Investments in associates and joint ventures	13	61,871,150	55,834,465
Property and equipment - net	14	442,141,052	130,657,585
Investment properties - net	15	12,572,688,197	11,448,382,530
Deferred tax assets	25	170,935,989	47,941,716
Other non-current assets	17	<u>1,106,046,366</u>	<u>723,588,366</u>
Total Non-current Assets		<u>17,757,520,909</u>	<u>14,998,214,602</u>
INVESTMENT IN JOINT VENTURE HELD FOR TERMINATION			
	13	<u>-</u>	<u>127,062,953</u>
TOTAL ASSETS		<u>P 31,266,798,209</u>	<u>P 29,788,715,580</u>

	Notes	<u>2019</u>	<u>2018</u>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Loans and borrowings	18	P 114,670,000	P 1,417,170,000
Trade and other payables	19	1,195,576,488	1,013,960,731
Contract liability	10	130,492,147	101,593,352
Advances from a co-joint venturer	13, 26	1,040,026,017	1,000,000,000
Advances from and due to related parties	26	4,311,708,305	4,611,174,814
Deposits and advances	20	1,097,274,022	793,551,597
Lease liability	16	11,282,400	-
Income tax payable		499,824,889	111,190,439
Total Current Liabilities		<u>8,400,854,268</u>	<u>9,048,640,933</u>
NON-CURRENT LIABILITIES			
Loans and borrowings	18	397,050,000	511,750,000
Contract liability	10	424,242,984	108,866,469
Deposits and advances	20	452,607,619	504,858,972
Deferred tax liabilities - net	25	902,261,528	720,976,913
Lease liability	16	153,101,312	-
Retirement benefit obligation - net	24	3,497,504	27,643,914
Total Non-current Liabilities		<u>2,332,760,947</u>	<u>1,874,096,268</u>
Total Liabilities		<u>10,733,615,215</u>	<u>10,922,737,201</u>
EQUITY			
Equity attributable to shareholders of the parent company			
Capital stock	28	3,395,864,100	3,395,864,100
Additional paid-in capital	28	6,964,649,807	6,964,649,807
Revaluation reserves	28	(8,143,620)	(28,524,335)
Other reserves	2, 28	(275,974,845)	(275,974,845)
Retained earnings	28	9,910,340,671	8,141,450,177
Total equity attributable to shareholders of the parent company		19,986,736,113	18,197,464,904
Noncontrolling interest	2	546,446,881	668,513,475
Total Equity		<u>20,533,182,994</u>	<u>18,865,978,379</u>
TOTAL LIABILITIES AND EQUITY		<u>P 31,266,798,209</u>	<u>P 29,788,715,580</u>

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, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
REVENUES				
Rentals:				
Land	4, 15, 26, 29	P 979,051,345	P 965,248,664	P 919,417,814
Building	4, 15, 26, 29	793,491,115	762,108,933	429,701,872
Other revenues	2	<u>186,239,052</u>	<u>173,841,016</u>	<u>91,687,180</u>
		1,958,781,512	1,901,198,613	1,440,806,866
Land sales	2, 4	935,850,000	1,252,800	1,088,290,000
Sale of condominium units	2, 4	547,652,588	119,351,066	47,116,581
Construction contracts	2, 4	<u>71,107,851</u>	<u>130,524,057</u>	<u>202,132,945</u>
		<u>3,513,391,951</u>	<u>2,152,326,536</u>	<u>2,778,346,392</u>
COSTS OF SERVICES AND SALES				
Sale of condominium units	23			
	2, 10, 21	314,461,056	72,875,718	30,332,254
Rentals	21	267,201,442	212,361,243	135,749,456
Land sales	11	66,743,881	40,078	141,520,283
Construction contracts	21	<u>45,901,447</u>	<u>61,508,781</u>	<u>132,234,603</u>
		<u>694,307,826</u>	<u>346,785,820</u>	<u>439,836,596</u>
		<u>2,819,084,125</u>	<u>1,805,540,716</u>	<u>2,338,509,796</u>
GROSS PROFIT				
OTHER OPERATING INCOME (EXPENSES)				
General and administrative	23	(473,632,491)	(477,827,022)	(412,273,915)
Selling	23	(128,823,478)	(64,902,124)	(61,304,238)
Other operating income	22	<u>54,255,794</u>	<u>109,524,290</u>	<u>293,514,031</u>
		<u>(548,200,175)</u>	<u>(433,204,856)</u>	<u>(180,064,122)</u>
		<u>2,270,883,950</u>	<u>1,372,335,860</u>	<u>2,158,445,674</u>
OPERATING PROFIT				
OTHER INCOME (CHARGES)				
Finance income	8, 22	297,338,273	69,523,005	7,163,743
Finance costs	18, 22, 24	(98,524,967)	(69,851,542)	(72,107,089)
Share in net earnings (losses) of associates and joint ventures	13	6,036,685	6,307,878	(992,977)
Dividend income		1,470,004	-	-
Other income	4, 13, 22	<u>850,000,000</u>	<u>1,200,000,000</u>	<u>-</u>
		<u>1,056,319,995</u>	<u>1,205,979,341</u>	<u>(65,936,323)</u>
		<u>3,327,203,945</u>	<u>2,578,315,201</u>	<u>2,092,509,351</u>
PROFIT BEFORE TAX				
TAX EXPENSE	25	<u>1,075,233,429</u>	<u>657,518,863</u>	<u>534,720,719</u>
		<u>P 2,251,970,516</u>	<u>P 1,920,796,338</u>	<u>P 1,557,788,632</u>
Net profit attributable to:				
Equity shareholders of the parent company		P 2,374,037,110	P 1,911,245,490	P 1,558,462,597
Noncontrolling interest		<u>(122,066,594)</u>	<u>9,550,848</u>	<u>(673,965)</u>
		<u>P 2,251,970,516</u>	<u>P 1,920,796,338</u>	<u>P 1,557,788,632</u>
Earnings Per Share - Basic and Diluted				
	27	<u>P 0.699</u>	<u>P 0.625</u>	<u>P 0.574</u>

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, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
NET PROFIT		<u>P 2,251,970,516</u>	<u>P 1,920,796,338</u>	<u>P 1,557,788,632</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	24	27,514,967	(25,441,148)	14,339,519
Tax income (expense)	25	(8,254,490)	7,632,344	(4,301,856)
		<u>19,260,477</u>	(17,808,804)	10,037,663
Fair valuation of financial assets at fair value through other comprehensive income	17, 28	<u>1,120,238</u>	219,645	80,115
Other Comprehensive Income (Loss) – Net of Tax	28	<u>20,380,715</u>	(17,589,159)	10,117,778
TOTAL COMPREHENSIVE INCOME		<u>P 2,272,351,231</u>	<u>P 1,903,207,179</u>	<u>P 1,567,906,410</u>
Total comprehensive income attributable to:				
Equity shareholders of the parent company		<u>P 2,394,417,825</u>	<u>P 1,893,656,331</u>	<u>P 1,568,580,375</u>
Noncontrolling interest		<u>(122,066,594)</u>	<u>9,550,848</u>	<u>(673,965)</u>
		<u>P 2,272,351,231</u>	<u>P 1,903,207,179</u>	<u>P 1,567,906,410</u>

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, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

Notes	Attributable to Shareholders of the Parent Company							Noncontrolling Interest	Total Equity
	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings		Total		
					Unappropriated	Appropriated			
Balance at January 1, 2019	P 3,395,864,100	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
Effect of consolidation of a subsidiary	13	-	-	-	(80,634,966)	-	(80,634,966)	-	(80,634,966)
Cash dividend declared	28	-	-	-	(524,511,650)	-	(524,511,650)	-	(524,511,650)
Net profit for the year	-	-	-	-	2,374,037,110	-	2,374,037,110	(122,066,594)	2,251,970,516
Other comprehensive income for the year	-	-	20,380,715	-	-	-	20,380,715	-	20,380,715
Balance at December 31, 2019	P 3,395,864,100	P 6,964,649,807	(P 8,143,620)	(P 275,974,845)	P 8,710,340,671	P 1,200,000,000	P 19,986,736,113	P 546,446,881	P 20,533,182,994
Balance at January 1, 2018	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
Issuances during the year	28	679,172,900	6,964,649,807	-	-	-	7,643,822,707	-	7,643,822,707
Net profit for the year	-	-	-	-	1,911,245,490	-	1,911,245,490	9,550,848	1,920,796,338
Other comprehensive loss for the year	-	-	(17,589,159)	-	-	-	(17,589,159)	-	(17,589,159)
Balance at December 31, 2018	P 3,395,864,100	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	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
Stock dividends declared	28	1,000,000,000	-	-	(1,000,000,000)	-	-	-	-
Net profit for the year	-	-	-	-	1,558,462,597	-	1,558,462,597	(673,965)	1,557,788,632
Other comprehensive income for the year	-	-	10,117,778	-	-	-	10,117,778	-	10,117,778
Balance at December 31, 2017	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

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, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 3,327,203,945	P 2,578,315,201	P 2,092,509,351
Adjustments for:				
Interest income	22	(296,920,773)	(66,668,597)	(7,154,349)
Depreciation and amortization	14, 15, 16	149,241,253	134,627,187	88,261,930
Finance costs	22	98,347,073	69,851,542	72,107,089
Share in net losses (earnings) of associates and joint ventures	13	(6,036,685)	(6,307,878)	992,977
Dividend income		(1,470,004)	-	-
Fair value gain on financial assets at FVTPL	22	(417,500)	-	-
Unrealized foreign currency losses (gains) - net		177,894	(2,854,408)	(9,394)
Gain on sale of investment properties	15	-	-	(257,686,063)
Operating profit before working capital changes		3,270,125,203	2,706,963,047	1,989,021,541
Increase in receivables		(639,659,242)	(724,886,883)	(454,425,800)
Increase in contract asset		(82,360,613)	(119,351,065)	(46,616,636)
Decrease (increase) in land and land development costs		(45,711,473)	(193,183,087)	21,928,788
Increase in property development costs		(58,818,239)	(116,302,673)	(570,775,264)
Decrease (increase) in other assets		644,606,851	(767,876,733)	(470,924,721)
Increase in trade and other payables		70,199,818	11,292,727	589,326,597
Increase in contract liability		344,275,310	86,131,768	118,173,097
Increase in deposits and advances		249,880,833	174,168,373	95,095,994
Increase (decrease) in retirement benefit obligation		1,298,028	(65,371,122)	1,013,715
Cash generated from operations		3,753,836,476	991,584,352	1,271,817,311
Cash paid for income taxes	25	(522,750,448)	(13,251,558)	(24,993,156)
Interest received		266,287,639	66,668,597	7,154,349
Net Cash From Operating Activities		3,497,373,667	1,045,001,391	1,253,978,504
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in short-term placements	12	(2,060,000,000)	(1,400,000,000)	-
Construction in progress and development costs of investment properties	15	(1,306,139,986)	(417,451,274)	(746,426,905)
Collection of advances to related parties	26	420,346,968	65,137,964	116,271,856
Additional advances to related parties	26	(376,675,636)	(126,377,851)	(102,693,465)
Acquisitions of property and equipment	14	(154,152,354)	(29,848,923)	(18,908,741)
Dividend received		1,470,004	-	-
Proceeds from sale of investment properties	15	-	-	448,828,202
Acquisition of financial assets at fair value through other comprehensive income	17	-	-	(48,828,780)
Net Cash Used in Investing Activities		(3,475,151,004)	(1,908,540,084)	(351,757,833)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of interest-bearing loans and borrowings	18	(1,417,200,000)	(1,552,982,945)	(545,478,732)
Cash dividends declared and paid by subsidiaries to its other shareholders	28	(404,512,000)	-	-
Repayments of advances from related parties	26	(323,999,539)	(44,882,438)	(8,960,439)
Cash dividends declared and paid to stockholders of parent company	28	(119,999,650)	-	-
Finance costs paid		(83,386,399)	(85,592,203)	(82,959,332)
Repayments of lease liability	16	(10,764,618)	-	-
Proceeds from issuance of shares of stock	27	-	7,643,822,707	-
Additional interest-bearing loans and borrowings	18	-	1,005,000,000	358,972,403
Advances received from related parties	26	-	-	1,219,082
Net Cash From (Used in) Financing Activities		(2,359,862,206)	6,965,365,121	(277,207,018)
Effect of Changes in Foreign Exchange Rate on Cash and Cash Equivalents		(177,894)	2,854,408	9,394
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(2,337,817,437)	6,104,680,836	625,023,047
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		7,549,219,648	1,444,538,812	819,515,765
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 5,211,402,211	P 7,549,219,648	P 1,444,538,812

Supplemental Information on Non-cash Activities – See Note 31

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, 2019 AND 2018
(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.

On June 29, 2018, the Parent Company's shares of stock were listed at the Philippine Stock Exchange (PSE) (see Note 28.1).

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% as of December 31, 2019 and 2018.

DMWAI's registered office, is located at 3rd Floor Aseana Powerstation Building, D. Macapagal Avenue cor. Bradco Avenue Aseana City, Parañaque City while its principal place of business is located at 15th and 16th Floor, Aseana 3 Bldg., D. Macapagal Blvd. cor. Aseana Avenue, 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.

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, 2019 and 2018, 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	
		2019	2018
Subsidiaries:			
<i>Direct:</i>			
Aseana Residential Holdings Corp. (ARHC)	(a)	100.00%	100.00%
Aseana Holdings, Inc. (AHI)	(b)	99.98%	99.98%
Fabricom, Inc. (FI)	(c)	99.98%	99.98%
Fabricom Realty Development Corporation (FRDC)	(d)	62.20%	62.20%
R-1 Consortium, Inc. (R-1)	(e)	55.45%	55.45%
Alphaland Bay City Corporation (ABCC)	(f)	100.00%	-
<i>Direct and Indirect:</i>			
Portal Holdings, Inc. (PHI)	(g)	100.00%	100.00%
Mandaue Land Consortium, Inc. (MLCI)	(h)	81.00%	81.00%
Aseana I.T. Plaza, Inc. (AITPI)	(i)	66.97%	66.97%
SHLP BBP Realty, Inc. (SBRI)	(j)	55.96%	55.96%
<i>Indirect:</i>			
58 Jupiter Inc. (formerly Reine, Inc.) (58 Jupiter) – <i>Accounted for as Asset Acquisition</i>	(k)	100.00%	100.00%
Boracay International Airport & Dev't Corp. (BIADC)	(l)	99.98%	99.98%
U-City Technologies Philippines, Inc. (UCTPI)	(m)	99.98%	99.98%
Aseana City Transport & Travel Corp. (ACTTC)	(n)	99.98%	99.98%
Aseana Gas Energy Corp. (AGEC)	(o)	99.98%	99.98%
Aseana Real Estate Services Management Corp. (ARESM)	(p)	95.98%	95.98%
Bay Area Holdings, Inc. (BAHI)	(q)	59.98%	59.98%
Associates:			
Alphaland Heavy Equipment, Corp. (AHEC)	(r)	50.00%	50.00%
European Resources and Technology, Inc. (ERTT)	(s)	42.00%	42.00%
Aseana CL, Beach and Marina Development Corporation (ACBMDC)	(t)	36.00%	36.00%
Joint ventures:			
Bay Resources and Development Corporation (BRADCO)	(u)	50.00%	50.00%
Alphaland Bay City Corporation (ABCC)	(f)	-	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 28.4, 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) 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. As more fully discussed in Note 13.2(b), ABCC became a subsidiary of DMWAI starting in 2019.
- (g) 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.
- (h) 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.
- (i) 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.
- (j) 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.
- (k) 58 Jupiter was acquired in 2017 and indirectly owned through AHI [see Notes 3.1(k) 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.
- (l) Indirectly owned through AHI; established to build an international airport in Boracay, Municipality of Malay and/ or Carabao Island, San Jose, Romblon, Philippines.
- (m) 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 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 28.4).
- (n) 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.
- (o) 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.
- (p) Indirectly owned through AHI; established to acquire and manage properties such as commercial, residential, office condominium and industrial real estate.
- (q) 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 28.4, 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.

- (r) 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, 2019, AHEC is currently in the process of liquidation (see Note 13.1).
- (s) 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.
- (t) DMWAP'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 of real estate objects, involving commercial, industrial, urban, residential or other kinds of real property.
- (u) BRADCO was established to acquire, develop and market real estate properties [see Note 13.2(a)].

As of December 31, 2019, FRDC, R-1, MLCI, AITPI, SBRI, BIADC, AGECE, 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, 2019 (including the comparative consolidated financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 19, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. 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.

(c) *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.

(d) *Prior Period Reclassification of Accounts*

The Group reclassified the following prior period accounts to conform with the 2019 consolidated financial statement presentation and account classification:

- (i) Contract Asset and Contract Liability in 2018 amounting to P103.0 million and P108.9 million, respectively, were reclassified from current classification to non-current classification (see Note 10); and,
- (ii) Income Tax Payable in 2018 amounting to P111.2 million was reclassified from Trade and Other Payables to a separate line item under Current Liabilities (see Note 19).

These prior period reclassifications only represent 0.3% and 2.0% of consolidated total assets and consolidated total liabilities, respectively, as of December 31, 2018. The foregoing reclassifications did not have any effect on the consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2018. As such reclassifications did not have any material impact on the Group's consolidated financial statements, a third consolidated statement of financial position is not required to be presented.

2.2 Adoption of New and Amended PFRS

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

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

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases

International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and PFRS 11 (Amendments):		Business Combination and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation

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

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Group’s consolidated financial statements.
- (ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. The application of these amendments had no significant impact on the Group’s consolidated financial statements.
- (iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Group’s consolidated financial statements.

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

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

Relative to the adoption of PFRS 16 in the Philippines, the FRSC also approved the issuance of the following:

- Philippine Interpretations Committee (PIC) Q&A 2019-08, *Accounting for Asset Retirement or Restoration Obligation (ARO) with the Adoption of PFRS 16*. This Q&A clarifies that ARO is not included as a component of lease liability and measurement of such is outside the scope of PFRS 16. However, in cases where the reassessment of lease-related assumptions (e.g., lease term) would affect the measurement of ARO-related provision, the amount of ARO existing at transition date would not be remeasured; rather, the balance of the ARO provision and any related asset will remain previously measured. The asset will be reclassified from property and equipment to the related ROU asset as required under PFRS 16.
- PIC Q&A 2019-09, *Accounting for Prepaid Rent or Rent Liability Arising from Straight-lining under PAS 17 on Transition to PFRS 16 and the Related Deferred Tax Effects*. This Q&A provides guidance as to the accounting of prepaid rent or rent liability arising from PAS 17 and the related deferred tax effects under either full retrospective approach or modified retrospective approach.
- PIC Q&A 2019-10, *Accounting for Variable Payments with Rent Review*. This Q&A clarifies that the lessee shall determine the revised lease payments of the remainder of the lease term based on the revised contractual payments.
- PIC Q&A 2019-11, *Determining the Current Portion of an Amortizing Lease Liability*. This Q&A provides guidance on determining the current portion of an amortizing lease liability for proper classification/presentation between current and non-current in the statement of financial position.
- PIC Q&A 2019-12, *Determining the Lease Term under PFRS 16*. This Q&A provides guidance in determining the lease term under the new leases standard. Such exercise may require significant judgment especially when the lease agreement contains an option to either extend or terminate the lease.

- PIC Q&A 2019-13, *Determining the Lease Term of Leases that are Renewable Subject to Mutual Agreement of the Lessor and the Lessee*. This Q&A is a supplement to PIC Q&A 2019-12, providing guidance on determining the lease term under PFRS 16. This focuses on lease contracts that are renewable subject to mutual agreement of the parties.

The Group has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. Accordingly, comparative information were not restated.

The new accounting policies of the Group as a lessee are disclosed in Note 2.18(a)(i), while the accounting policies of the Group as a lessor, as described in Note 2.18(b), were not significantly affected.

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

- a. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.
- b. The Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7.54%.
- c. The Group has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Group also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid lease payments and estimated cost to restore the leased asset that existed as at January 1, 2019.
- d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.
- e. The Group has also used, as a practical expedient, the reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets, as permitted by the standard. As at January 1, 2019, the Group has no onerous contracts. The Group also used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

	Note	Carrying Amount (PAS 17) December 31, 2018	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
<i>Assets:</i>				
Investment properties – net	c	P 11,448,382,530	P 163,848,424	P11,612,230,954
<i>Liabilities:</i>				
Lease liability	b	-	(163,848,424)	(163,848,424)
Impact on net assets		<u>P 11,448,382,530</u>	<u>P -</u>	<u>P11,448,382,530</u>

On the statement of financial position, right-of-use assets have been presented as part of investment properties since it relates to a lease of a certain land where the Group constructed improvements therein and which such assets are subsequently leased out to third parties under operating leases (see Notes 15 and 16) while lease liabilities have been presented separately from other liabilities.

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes	
Operating lease commitments, December 31, 2018 (PAS 17)	29.1	P 194,647,591
Reasonably certain and enforceable extension options	2.2(a)(iv)(e)	<u>258,991,724</u>
Operating lease liabilities before discounting		453,639,315
Discount using incremental borrowing rate	2.2(a)(iv)(b)	(<u>289,790,891</u>)
Lease liabilities, January 1, 2019 (PFRS 16)		<u>P 163,848,424</u>

- (v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. The application of this interpretation had no significant impact on the Group's consolidated financial statements.

(vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2019, are relevant to the 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 an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.
- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.
- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

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

There are amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

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

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

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

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

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

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

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

Although the Group had not capitalized borrowing costs relating to its real estate inventories in current and prior years, the Group opted to avail the relief provided by the SEC to defer the implementation of the IFRIC Agenda Decision until December 31, 2020. The Group's accounting policies with respect to capitalization of borrowing costs on real estate inventories under construction are disclosed in Note 2.23.

Generally, an entity that capitalized borrowing costs and elected not to defer the IFRIC Agenda Decision would have the following impact in its financial statements:

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

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

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

- Concept of the significant financing component in the contract to sell;
IFRS 15, Revenue from Contracts with Customers, requires that in determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component.
- Treatment of land and uninstalled materials in the determination of percentage of completion (POC) (PIC Q&A No. 2018-12-E);
Uninstalled materials delivered on-site such as steels and rebars, elevators and escalators, which are yet to be installed to the main or attached to the main structure are excluded in the assessment of progress. Land shall also be excluded in the assessment.

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

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

- a) Electricity usage – Agent
- b) Water usage – Agent
- c) Air-conditioning charges – Principal
- d) Common use service area (CUSA) charges and administrative and handling fees – Principal

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

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

The Group elected to defer the adoption of the 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, 2018 as well as a decrease in the revenue from sale of condominium units for the years ended December 31, 2019 and 2018;
- 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, 2018 and the revenue from sale of condominium units for the years ended December 31, 2019 and 2018. 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, 2018 and recognized the gain from repossession for the years ended December 31, 2019 and 2018. 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.

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 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 presented below and in the succeeding page.

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and (iii) it has the ability to affect those returns through its power over the entity. 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 indicated above. 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*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets 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 SPPI on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, 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 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 placements (presented as part of Other Current Assets account), 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.

(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 fair value through profit or loss (FVTPL). The Group has designated unquoted equity instruments and proprietary golf club shares as Financial assets at FVOCI on initial recognition. These are presented as Financial assets at FVOCI under the 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.

Any dividends earned on holding equity instruments are recognized in profit or loss under Other Income, 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.

(iii) *Financial Assets at Fair Value Through Profit or Loss*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL significantly include equity securities and a small portion of convertible debt securities, which are held by the Group for trading purposes and designated as at FVTPL, respectively.

Financial assets at FVTPL are initially measured at fair value. Subsequently, they are measured at fair value with gains or losses recognized in profit or loss as part of Finance Income in the statements of profit or loss.

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

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

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

Interest income earned is recognized in the statement of profit or loss as part of Finance Income.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) *Impairment of Financial Assets*

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

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables (other than advances to and rental receivables from related parties) and other financial assets carried at amortized costs. 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 receivables such as rental and contract 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)].

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

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

- *Probability of default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral or effect of any credit enhancement.

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

The Group recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, if applicable, for which the loss allowance is recognized in other comprehensive income and accumulated in Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(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 [see Note 2.2(d)]. 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.

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 (including its land development costs), 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)(i)]. 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), lease liability, 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, except those capitalized as part of qualifying asset, 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 and lease liability [see Note 2.18(a)(i)] 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 and due to related parties, advances from a co-joint venture and construction bonds 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 12 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(b)].

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 (see Note 2.21).

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 and sale of land and condominium units.

To determine whether to recognize revenue, the Group follows a five-step process:

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

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

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

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

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

- (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- (c) 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(c). 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(b)]:

- (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 value-added tax (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.

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, *PFRS 15 Implementing Issues Affecting the Real Estate Industry*), as an allowed transition relief over the estimated costs to complete the projects [see Note 2.2(c)].

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 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(i)]. When determining the appropriate accounting treatment for such costs, the Group first considers any other applicable standards. If other standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15. If other standards are not applicable to contract fulfillment cost, the Company applies the following criteria, which, if met, result in capitalization:

- (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract;
- (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (iii) the costs are expected to be recovered.

Any contract fulfillment assets or capitalized costs are amortized based on the transfer of goods or services the asset relates to. Furthermore, these are derecognized either upon disposal or when no further economic benefits are expected to flow from its use or disposal.

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).

In 2019 and 2018, the Group recognized revenues based on the provisions of PFRS 15 wherein revenues depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

In 2017, revenue is recognized based on the provisions of PAS 18 which is to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the specific recognition criteria in the succeeding page must also be met before revenue is recognized.

- (a) *Sale of land* – revenue on sale of raw land is recognized in full when at least 25% of the total contract price is collected or when the Group is certain that the sale will not be cancelled even if the collection is below 25%. Under the full accrual method, revenue is recognized when: (a) the collectability of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the Group does not have a substantial continuing involvement with the properties sold to a buyer. The collectability of the sales price is considered reasonably assured when 25% of the total contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

Revenue on sale of real estate other than raw land and condominium units, if any, is also recognized under the full accrual method. The Group recognizes the revenue in full when 25% or more of the contract price is received and development of the real estate property has reached 100% completion at which point buyer may already use the property.

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.

- (b) *Construction contracts* – revenue is recognized based on the percentage-of-completion method.
- (c) *Sale of condominium units* – for financial reporting purposes, revenues from transactions involving sales of residential condominium units are recognized under the percentage-of-completion method. Under this method, realization of gross profit is recognized by reference to the stage of development of the properties, i.e., revenue is recognized in the period in which the work is performed. The unrealized gross profit on a year's sales is presented as Deferred Gross Profit on Sale of Condominium Units in the consolidated statement of profit or loss; and, the cumulative unrealized gross profit as of the end of the reporting period is shown as Deferred Gross Profit on Sale of Condominium Units in the consolidated statement of financial position.

Sale of condominium units is recognized when 20% of the total contract price has already been collected. The amount of sale of condominium units recognized in the consolidated statement of comprehensive income is equal to the total contract price, net of day-one loss related to the discounting of noninterest-bearing receivables. If the transaction does not yet qualify for recognition as sale, the deposit method is applied until all conditions for recognizing the sale are met. Pending the recognition of sale, payments received from buyers are presented as Reservation deposits under the Deposits and Advances account, classified as current or non-current liability in the consolidated statement of financial position depending on the remaining term of the relevant contract.

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

For tax reporting purposes, revenue on sale and cost of real estate sold are recognized in full when at least 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.

Also in 2017, costs of land and residential condominium units sold before completion of the contemplated development is determined based on the actual costs incurred to date plus estimated costs for development as determined by the Parent Company's engineering department and are recognized when the related revenue from sale of land and condominium units is recognized.

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.

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 purchase 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

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

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability in the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.21).

On the other hand, the Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, right-of-use assets have been presented as part of investment properties since it relates to a lease of a certain land where the Group constructed improvements therein and which such assets are subsequently leased out to third parties under operating leases (see Notes 15 and 16) while lease liabilities have been presented separately from other liabilities.

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

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

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

(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.

2.19 *Related Party Relationships and Transactions*

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.

Transactions amounting to 10% or more of the total assets based on the latest audited consolidated financial statements that were entered into with related parties are considered material under SEC Memorandum Circular No. 10, Series of 2019, *Rules on Material Related Party Transactions for Publicly-listed Companies*.

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

2.20 *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, right-of-use asset 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)], 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, unless there is a plan amendment, curtailment or settlement during the period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions 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.

(c) *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.

(d) *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.

(e) *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. As more fully discussed in Note 2.2(c), the Group availed the relief provided by the SEC to defer the implementation of the IFRIC Agenda Decision until December 31, 2020. Until such time and when applicable, no borrowing costs can be capitalized on unsold real estate inventories.

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 current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the 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 28.3).

2.26 Earnings and Diluted Earnings Per Share

Basic earnings per share (EPS) 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 27).

Diluted EPS 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 27).

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 judgments in the succeeding pages, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements.

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

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

The factors that are normally the most relevant are (a) if there are significant penalties should the Group pre-terminate the contract, and (b) if any land improvements are expected to have a significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Group considers the extension period as part of the lease term for a certain lease of land (as lessee) due to its enforceability that does not require mutual agreement of both parties for renewal purposes.

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

(b) *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(b)]. 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 Note 13.2(b). 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 a specific point in time in 2018 (see Note 22.4). 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. The Group recognized income in 2019 based on performance obligations satisfied in accordance with the Consideration Agreement (see Note 22.4).

(c) 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 Group uses the practical 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 Q&A 2018-12 with respect to the accounting for the significant financing component in a contract to sell [see Note 2.2(c)].

(d) Determining the ECL on Trade and Other Receivables and Contract Asset

The Group uses a provision matrix to calculate ECL for non-related party trade and other 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 revenue stream 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.

On the other hand, the Group uses a general approach to calculate ECL for advances to and rental receivables from related parties [see Note 2.4(b)]. The Group's management determines possible impairment based on the counterparties' ability to repay the receivables upon demand at the reporting date taking into consideration the historical defaults from the counterparties.

Details about the ECL on the Group's receivables and contract asset are disclosed in Note 5.2(b).

(e) *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.

In 2019, a portion of the Group's investment properties was reclassified to property and equipment which represents the portion held by the Group for administrative purposes (see Notes 14 and 15).

(f) *Distinguishing Real Estate Inventories and Investment Properties*

The Group's management identifies a property as real estate inventories (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, 2019 and 2018, parcels of land identified as Land and Land Development Costs amounted to P2,012.5 million and P2,162.2 million, respectively (see Note 11).

Parcels of land, classified as Investment Properties, amounted to P8,867.5 million and P8,720.2 million as of December 31, 2019 and 2018, respectively (see Note 15).

The Group reclassified certain parcels of land which were previously presented under Investment in Joint Venture Held for Termination to Investment Properties amounting to P163.3 million in 2019 [see Notes 13.2(b) and 15], and under Investment Properties to Property Development Costs amounting to P397.8 million in 2019 (see Notes 10.1 and 15).

(g) *Distinguishing Operating and Finance Leases for Contracts Where the Group is the Lessor*

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.

(h) *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 18).

(i) *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 29.

(j) *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.

(k) *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 58 Jupiter 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 1.2).

(l) *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 P139.7 million, P104.1 million and P66.2 million in 2019, 2018 and 2017, respectively, in the consolidated statements of profit or loss.

3.2 Key Sources of Estimation Uncertainty

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

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

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimating Useful Lives of Property and Equipment, Investment Properties and Right-of-use Assets*

The Group estimates the useful lives of property and equipment, investment properties (except for land) and right-of-use assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, investment properties and right-of-use assets 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, investment properties and right-of-use assets are analyzed in Notes 14, 15 and 16, respectively. Based on management's assessment, there is no change in the estimated useful lives of those assets in 2019 and 2018. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(c) *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.

(d) *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.

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

Investment properties are measured using the cost model, however, the financial reporting standard requires the disclosure of its fair value. 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 2019 and 2018; 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 2019 and 2018.

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.

The fair values of investment properties as of December 31, 2019 and 2018 are disclosed in Note 15 while the relevant valuation methodology and fair value hierarchy are disclosed in Note 7.4.

(f) *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 2019 and 2018 consolidated statements of profit or loss.

(g) *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 P547.7 million, P119.4 million and P47.1 million in 2019, 2018, and 2017, respectively, and is presented as Sale of condominium units under Revenues account in the consolidated statements of profit or loss.

(h) *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.

(i) *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 17).

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.

(j) *Estimating Allowance for ECL*

The measurement of the allowance for ECL is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers/counterparties 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, 2019 and 2018 are fully collectible (see Notes 9 and 10).

(k) *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 FVTPL and FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Notes 12 and 17.2, respectively.

(l) *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, 2019 and 2018, will be fully utilized as it is expecting sufficient taxable profits against which the deferred tax assets can be applied (see Note 25).

(m) *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 2019, 2018 and 2017.

(n) *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 24.2 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 24.2.

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, 2019 and, 2018 and 2017 (in thousands):

	<u>Rentals</u>			<u>Construction</u>			<u>Sale of Land and Condominium Units</u>			<u>Total</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
REVENUES												
Sales to external customers	P 1,958,782	P1,901,199	P1,440,807	P 71,107	P 130,524	P 202,133	P 1,483,503	P 120,604	P 1,135,407	P 3,513,392	P 2,152,327	P 2,778,347
Intersegment sales	187,456	285,468	153,091	1,048,004	396,965	751,116	2,394,000	-	-	3,629,460	682,433	904,207
Total revenues	2,146,238	2,186,667	1,593,898	1,119,111	527,489	953,249	3,877,503	120,604	1,135,407	7,142,852	2,834,760	3,682,554
COSTS AND OTHER OPERATING EXPENSES												
Cost of sales and services excluding depreciation and amortization	165,014	109,176	70,284	44,494	47,044	124,513	381,205	72,916	171,853	590,713	229,136	366,650
Depreciation and amortization	110,176	103,185	65,465	1,407	14,464	7,721	-	-	-	111,583	117,649	73,186
Other expenses	104,341	164,806	117,733	4,722	4,526	5,148	99,323	25,528	63,658	208,386	194,860	186,539
	379,531	377,167	253,482	50,623	66,034	137,382	480,528	98,444	235,511	910,682	541,645	626,375
SEGMENT OPERATING PROFIT	P 1,766,707	P 1,809,500	P 1,340,416	P 1,068,488	P 461,455	P 815,867	P 3,396,975	P 22,160	P 899,896	P 6,232,170	P 2,293,115	P 3,056,179

Segment assets and liabilities are allocated to each segment as follows (in thousands):

	<u>Rentals</u>		<u>Construction</u>		<u>Sale of Land and Condominium Units</u>		<u>Total</u>	
	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Assets</u>	<u>Total Liabilities</u>
December 31, 2019	P 22,757,082	P 10,097,799	P 4,333,560	P 665,661	P 5,963,834	P 2,966,258	P 33,054,476	P 13,729,718
December 31, 2018	19,901,718	9,431,032	5,522,104	968,503	3,579,441	969,592	29,003,263	11,369,127

Currently, the Group's operation is concentrated in one location; hence, it has no geographical segment (see Note 4.1).

In 2019, 2018 and 2017, rental revenues from a single lessee account for 20.56%, 34.96% and 25.21%, respectively, of the consolidated revenues. In 2019 and 2017, revenues from sale of land are generated from a single customer and two customers, respectively, and which account for 26.64% and 36.11% of the consolidated revenues, respectively. There were no revenues from sale of land in 2018.

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):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues			
Total segment revenues	P 7,142,852	P 2,834,760	P 3,682,554
Elimination of intersegment revenues	(3,629,460)	(682,433)	(904,207)
Revenues as reported in the consolidated statements of profit or loss	<u>P 3,513,392</u>	<u>P 2,152,327</u>	<u>P 2,778,347</u>
Profit or loss			
Segment operating profit	P 6,232,170	P 2,293,115	P 3,056,179
Elimination of intersegment revenues	(3,629,460)	(682,433)	(904,207)
Other unallocated operating income (expenses)* – net	(331,826)	(238,346)	6,474
Operating profit as reported in the consolidated statements of profit or loss	2,270,884	1,372,336	2,158,446
Finance income	297,338	69,523	7,163
Finance costs	(98,525)	(69,852)	(72,107)
Share in net earnings (losses) of associates and joint ventures	6,037	6,308	(993)
Dividend Income	1,470	-	-
Other unallocated income*	<u>850,000</u>	<u>1,200,000</u>	<u>-</u>
Profit before tax as reported in the consolidated statements of profit or loss	<u>P 3,327,204</u>	<u>P 2,578,315</u>	<u>P 2,092,509</u>

* Other unallocated operating income includes gain on sale of investment properties in 2017 while other unallocated income pertains to the income from the Consideration Agreement in 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Assets		
Segment assets	P 33,054,476	P 29,003,263
Deferred tax assets – net	170,936	47,942
Other unallocated assets**	8,381,596	6,781,660
Elimination of intercompany accounts	(10,340,210)	(6,044,149)
Total assets reported in consolidated statements of financial position	<u>P 31,266,798</u>	<u>P 29,788,716</u>
Liabilities		
Segment liabilities	P 13,729,718	P 11,369,127
Deferred tax liabilities – net	902,262	720,977
Other unallocated liabilities**	1,434,478	1,260,317
Elimination of intercompany accounts	(5,332,843)	(2,427,684)
Total liabilities as reported in consolidated statements of financial position	<u>P 10,733,615</u>	<u>P 10,922,737</u>

***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 PFRS 16 (PAS 17 in 2018 and 2017) 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.

	<u>Segment Revenues (Sales to External Customers)</u>				<u>Other Unallocated Income</u>			<u>Total</u>
	<u>Rentals</u>	<u>Construction</u>	<u>Sale of land</u>	<u>Sale of condominium units</u>	<u>Consideration Agreement (see Note 13)</u>	<u>Rendering of administrative services</u>		
<i>December 31, 2019:</i>								
Lease	P1,958,781,512	P -	P -	P -	P -	P -	P -	P1,958,781,512
Over time	-	71,107,851	-	547,652,588	850,000,000	43,348,238	-	1,512,108,677
Point in time	-	-	935,850,000	-	-	-	-	935,850,000
Short-term	-	71,107,851	935,850,000	-	850,000,000	43,348,238	-	1,900,306,089
Long-term	1,958,781,512	-	-	547,652,588	-	-	-	2,506,434,100
<i>December 31, 2018:</i>								
Lease	P1,901,198,613	P -	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	37,019,684	-	1,368,796,541
Long-term	1,901,198,613	-	-	119,351,066	-	-	-	2,020,549,679
<i>December 31, 2017:</i>								
Lease	P1,440,806,866	P -	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

Additional information not included above is the gain on sale of investment property in 2017, which is recognized at a point in time, and other income aggregating to P10.9 million, P72.5 million and P11.4 million in 2019, 2018 and 2017, respectively, that are considered by management insignificant to the Group's disaggregation information of revenues (see Note 22.3).

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 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, interest rate risk and certain other price 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:

	2019		2018	
	U.S. Dollar	Euro	U.S. Dollar	Euro
Financial assets	P 28,509,907	P 8,111,607	P 30,885,030	P 9,322,435

The following table illustrates the sensitivity of the Group's profit before tax and equity in 2019 and 2018 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.

	2019		
	Reasonably possible change in rate	Effect in profit before tax	Effect in equity
U.S. Dollar	+/-12.96%	P 3,694,884	P 2,586,419
Euro	+/-19.52%	1,583,386	1,108,370
Total		P 5,278,270	P 3,694,789
	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

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 higher by P5.3 million and P3.7 million, respectively, in 2019 and P5.7 million and P4.0 million, respectively, in 2018. 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 lower in 2019 and 2018 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, 2019 and 2018, the Group is exposed to changes in market interest rates affecting the cash flows from cash and cash equivalents, short-term placements and certain interest-bearing loans and borrowings which are subject to variable interest rates (see Notes 8 and 18). All other financial assets and financial liabilities have fixed rates or are noninterest-bearing.

Interest-bearing loans and borrowings, cash and cash equivalents and short-term placements which are subject to repricing are tested on a reasonably possible change (weighted average) of +/-1.61% and +/-2.05% Philippine peso in 2019 and 2018, 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 +/-P115.2 million and +/-P161.1 million in 2019 and 2018, respectively.

(c) Other Price Risk

The Group's market price risk arises from its investments carried at fair value. The Group manages exposures to price risk by monitoring the changes in the market price of the investments (see Note 7.2) and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

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 in the succeeding page.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	8	P 5,211,402,211	P 7,549,219,648
Short-term placement <i>(presented as part of Other Current Assets)</i>	12	2,060,000,000	1,400,000,000
Receivables – net <i>(except for Advances to suppliers)</i>	9	5,276,558,087	4,665,569,544
Contract asset	10	249,012,950	166,652,337
Refundable deposits <i>(presented as part of Other Non-current Assets)</i>	17	47,362,548	52,254,083
		<u>P12,844,335,796</u>	<u>P13,833,695,612</u>

None of the Group’s financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents, rental receivables and contract receivables as described below.

(a) Cash and Cash Equivalents and Short-term Placements

The credit risk for cash and cash equivalents and short-term placements are 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 Republic Act (R.A.) No. 9302, *Charter of Philippine Deposit Insurance Corporation*, which is also subjected to credit risk.

(b) Trade and Other Receivables and Contract Asset

The Group applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all non-related party receivables and contract asset. In addition, rental and contract receivables are secured by at least the amount of advance rentals and rental deposits, and construction bonds and whereby there is an outstanding retention payable, respectively. These are form of securities partially mitigating the credit risk.

To measure the expected credit losses, 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 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, 2019 and 2018, 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 inflation rate and interest rate to be the most relevant factors during the reporting periods, and accordingly adjusts the historical loss rates based on expected changes in these factors.

ECL for advances to related parties are measured and recognized using the liquidity approach. Management determines possible impairment based on the counterparties' ability to repay the receivables upon demand at the reporting date taking into consideration the historical defaults from the counterparties.

Management assessed that portion of the outstanding receivables from certain related parties as of December 31, 2019 and 2018 are not fully recoverable since these related parties do not have enough capacity to pay the advances and loans upon demand. Accordingly, total credit losses amounting to P19.4 million and P0.4 million were recognized in 2019 and 2018, respectively.

The Group does not consider any significant risks in the remaining advances to related parties since the Group, whose credit risks for liquid funds are considered negligible, have committed to financially support these related parties as part of the its long-term corporate strategy.

The loss allowance as at December 31, 2019 and 2018 for non-related party receivables was determined based on months past due while loss allowance for related party receivables is based on capacity to pay. The loss allowance provided by the Group are are summarized as follows:

	<u>0-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>Over 90 days</u>	<u>Total</u>
December 31, 2019					
<i>Expected credit loss rate</i>	0.15%	3.41 %	6.63%	48.52%	
Rental and other receivables	P 94,919,621	P 7,097,778	P 4,180,711	P 21,516,487	P 127,714,597
Loss allowance	146,776	241,969	277,137	9,859,826	10,525,708
<i>Expected credit loss rate</i>	-	-	-	3.03%	
Contract and retention receivable	P 23,382,782	P -	P 5,134,097	P 775,616,315	P 804,133,194
Loss allowance	-	-	-	23,484,462	23,484,462
<i>Expected credit loss rate</i>	-	-	-	8.26%	
Advanced to related parties	P -	P -	P -	P 744,651,354	P 744,651,354
Loss allowance	-	-	-	61,493,994	61,493,994
December 31, 2018					
<i>Expected credit loss rate</i>	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	P 171,560,335
Loss allowance	146,776	241,969	277,137	9,859,826	10,525,708
<i>Expected credit loss rate</i>	-	-	-	0.24%	
Contract and retention receivable	P 4,321,169	P 1,009,523	P 895,805	P 668,649,388	P 674,875,885
Loss allowance	-	-	-	1,629,692	1,629,692
<i>Expected credit loss rate</i>	-	-	-	5.62%	
Advances to related parties	P 21,177,992	P 13,232,599	P 5,383,897	P 748,528,198	P 788,322,686
Loss allowance	-	-	-	42,102,006	42,102,006

A reconciliation of the allowance for impairment for trade and receivables and advances to related parties as at December 31, 2019 and 2018 is presented below (see Note 9):

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Trade and other receivables*</u>	<u>Advances to related parties</u>	<u>Trade and other receivables*</u>	<u>Advances to related parties</u>
Balance at beginning of year	P 12,155,400	P 42,102,006	P 4,237,539	P 41,674,668
Additional ECL	21,854,770	19,391,988	7,917,861	427,338
Balance at end of year	<u>P 34,010,170</u>	<u>P 61,493,994</u>	<u>P 12,155,400</u>	<u>P 42,102,006</u>

*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 (MOA) 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). 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, 2019, the title to the properties are not yet transferred to the Group. 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.

The Contract Asset account is secured to the extent of the fair value of the condominium units sold (i.e., based on current prices less estimated cost to sell) amounting to P6,854.8 million in 2019 and P3,731.2 million in 2018 since the title to the real estate properties remains with the Group until the contract assets or receivables are fully collected. The fair value of the condominium units sold is usually higher than the carrying value of the related contract asset, hence, 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, 2019 and 2018, the Group's financial liabilities (excluding lease liability – see Note 16) have contractual maturities as follows:

	<u>Notes</u>	<u>Current</u>		<u>Non-current</u>
		<u>Upon Demand/ Within 6 months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>
<u>December 31, 2019</u>				
Loans and borrowings	18	P 148,609,375	P 48,281,250	P 359,512,500
Trade and other payables (except tax liabilities)	19	363,749,520	307,155,054	-
Advances from a co-joint venturer	13.2, 26.2	1,040,026,017	-	-
Advances from and due to related parties	26.2	4,311,708,305	-	-
Rental deposits	20	-	46,376,641	217,053,912
Construction bond	20	-	51,053,388	-
		<u>P 5,864,093,217</u>	<u>P 452,866,333</u>	<u>P 576,566,412</u>
<u>December 31, 2018</u>				
Loans and borrowings	18	P 1,396,348,592	P 70,100,644	P 568,615,500
Trade and other payables (except tax liabilities)	19	491,204,109	235,681,905	-
Advances from a co-joint venturer	13.2	1,000,000,000	-	-
Advances from and due to related parties	26.2	4,611,174,814	-	-
Rental deposits	20	-	54,400,070	182,589,901
Construction bond	20	-	47,566,440	-
		<u>P 7,498,727,515</u>	<u>P 407,749,059</u>	<u>P 751,205,401</u>

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	2019		2018		
	Carrying Values	Fair Values	Carrying Values	Fair Values	
Financial Assets					
<i>At amortized cost:</i>					
Cash and cash equivalents	8	P 5,211,402,211	P 5,211,402,211	P 7,549,219,648	P 7,549,219,648
Short-term placement (presented as part of Other Current Assets)	12	2,060,000,000	2,060,000,000	1,400,000,000	1,400,000,000
Receivables – net	9	5,276,558,087	5,003,192,063	4,665,569,544	4,496,473,113
Refundable deposits (presented as part of Other Non-current assets)	17	<u>47,362,548</u>	<u>47,362,548</u>	<u>52,254,083</u>	<u>52,254,083</u>
		12,595,322,846	12,321,956,822	13,667,043,275	13,497,946,844
<i>Financial assets at:</i>					
FVTPL	12	48,206,870	48,206,870	-	-
FVOCI	17.2	<u>75,876,143</u>	<u>75,876,143</u>	<u>74,755,905</u>	<u>74,755,905</u>
		<u>P12,719,405,859</u>	<u>P12,446,039,835</u>	<u>P13,741,799,180</u>	<u>P13,572,702,749</u>
Financial Liabilities					
<i>At amortized cost:</i>					
Loans and borrowings	18	P 511,720,000	P 455,729,822	P 1,928,920,000	P 1,896,659,323
Trade and other payables	19	670,904,574	670,904,574	726,886,014	726,886,014
Advances from and due to related parties	26.2	4,311,708,305	4,311,708,305	4,611,174,814	4,611,174,814
Advances from a co-joint venturer	13.2, 26.2	1,040,026,017	1,040,026,017	1,000,000,000	1,000,000,000
Rental deposits	20	263,430,553	263,430,553	236,989,971	236,989,971
Construction bond	20	51,053,388	51,053,388	47,566,440	47,566,440
Lease liability	16.2	<u>164,383,712</u>	<u>164,383,712</u>	<u>-</u>	<u>-</u>
		<u>P 7,013,226,549</u>	<u>P 6,957,236,371</u>	<u>P 8,551,537,239</u>	<u>P 8,519,276,562</u>

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, 2019 and 2018 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:

	<u>Note</u>	<u>Gross amounts recognized in the consolidated statements of financial position</u>	<u>Related amounts not set off in the consolidated statements of financial position</u>	<u>Net amount</u>
Advances to related parties:	26.1			
December 31, 2019		P 744,651,354	(P 436,680,854)	P 307,970,500
December 31, 2018		788,322,686	(430,355,411)	357,967,275
Advances from and due to related parties:	26.2			
December 31, 2019		P 4,311,708,305	(P 436,680,854)	P 3,875,027,451
December 31, 2018		4,611,174,814	(430,355,411)	4,180,819,403

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 net asset value approach by reference to the fair value of its assets and liabilities. With respect to financial assets as FVTPL which include investments in equity securities, these are categorized under Level 1 as their prices are quoted in active market. On the other hand, debt security issued by a private company is included in Level 3.

As of December 31, 2019 and 2018, the Group's financial assets at FVOCI measured at fair value amounted to P75.9 million and P74.8 million, respectively (see Note 17.2) while the Group's financial assets at FVTPL measured at fair value amounted to P48.2 million and nil, respectively.

The Group has no financial liabilities measured at fair value as of December 31, 2019 and 2018.

There were no transfers between Levels 1 and 2 but there were changes in the carrying amount of Level 3 instruments in both years. Unrealized fair value gain amounting to P1.1 million is recognized on financial assets at FVOCI in 2019 (see Note 17).

7.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The tables in the succeeding page summarize 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, 2019			
Notes	Level 1	Level 2	Level 3	Total	
Financial Assets					
Cash and cash equivalents	8	P 5,211,402,211	P -	P -	P 5,211,402,211
Short-term placement <i>(presented as part of Other Current Assets)</i>	12	2,060,000,000	-	-	2,060,000,000
Receivables – net	9	-	-	5,003,192,063	5,003,192,063
Refundable deposits <i>(presented as part of Other Non-current Assets)</i>	17	-	-	47,362,548	47,362,548
		P 7,271,402,211	P -	P 5,050,554,611	P 12,321,956,822
Financial Liabilities					
Loans and borrowings	18	P -	P -	P 455,729,822	P 455,729,822
Trade and other payables	19	-	-	670,904,574	670,904,574
Advances from and due to related parties	26.2	-	-	4,351,734,322	4,351,734,322
Advances from a co-joint venturer	13.2	-	-	1,000,000,000	1,000,000,000
Rental deposits	20	-	-	263,430,553	263,430,553
Construction bond	20	-	-	51,053,388	51,053,388
Lease liability	16.2	-	-	164,383,712	164,383,712
		P -	P -	P 6,957,236,371	P 6,957,236,371
		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 <i>(presented as part of Other Current Assets)</i>	12	1,400,000,000	-	-	1,400,000,000
Receivables – net	9	-	-	4,496,473,113	4,496,473,113
Refundable deposits <i>(presented as part of Other Non-current Assets)</i>	17	-	-	52,254,083	52,254,083
		P 8,949,219,648	P -	P 4,548,727,196	P 13,497,946,844
Financial Liabilities					
Loans and borrowings	18	P -	P -	P 1,896,659,323	P 1,896,659,323
Trade and other payables	19	-	-	726,886,014	726,886,014
Advances from and due to related parties	26.2	-	-	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	20	-	-	236,989,971	236,989,971
Construction bond	20	-	-	47,566,440	47,566,440
		P -	P -	P 8,519,276,562	P 8,519,276,562

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 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, 2019					
Land	P	-	P119,127,072,049	P -	P119,127,072,049
Buildings and improvements		-	-	4,352,561,244	4,352,561,244
Construction in progress		-	-	1,270,510,090	1,270,510,090
	15	P -	P119,127,072,049	P 5,623,071,334	P124,750,143,383
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

The fair value of the Group's investment properties as of December 31, 2019 and 2018 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, 2019 and 2018, 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:

	<u>2019</u>	<u>2018</u>
Cash on hand and in banks	P 4,296,870,346	P 3,310,924,450
Short-term placements	<u>914,531,865</u>	<u>4,238,295,198</u>
	<u>P 5,211,402,211</u>	<u>P 7,549,219,648</u>

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 and 3.38% to 6.75% per annum in 2019 and 4.80% to 6.90% per annum in 2018. Interest income from cash in banks and short-term placements amounting to P263.7 million, P54.9 million and P7.2 million in 2019, 2018 and 2017, respectively, are included as part of Interest income under Finance Income in the consolidated statements of profit or loss (see Note 22.2). Accrued interest from short-term placements is presented as part of Others under Receivables account in the consolidated statements of financial position (see Note 9).

9. RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Current:			
Rental receivables	9.1	P 541,494,152	P 698,167,326
Advances to:	9.2		
Related parties	26.1	744,651,354	788,322,686
Suppliers		109,203,043	145,774,627
Officers and employees		9,350,613	9,016,070
Contracts receivables	9.3, 26.5	696,339,500	665,049,553
Retention receivables	9.4, 26.5	107,793,640	9,826,332
Others	8, 9.5, 12	<u>63,415,807</u>	<u>60,618,706</u>
		2,272,248,109	2,376,775,300
Allowance for impairment	5.2(b)	<u>(95,504,164)</u>	<u>(54,257,406)</u>
		2,176,743,945	2,322,517,894
Non-current:			
Rental receivables	9.1	<u>3,209,017,185</u>	<u>2,488,826,277</u>
		P 5,385,761,130	P 4,811,344,171

Receivables do not bear any interest. All receivables (except advances to suppliers) 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 PFRS 16 (previously 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. Rent receivables from PFRS 16 (previously PAS 17) adjustments amounted to P3,695.6 million and P3,703.0 million as of December 31, 2019 and 2018, 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 (see Notes 26.1). There are no definite repayment and settlement term on these advances.

Advances to suppliers under Other Current Assets pertain to mobilization funds provided to various suppliers for use primarily in the construction and development of the Group's residential condominium projects while those under Other Non-current Assets pertain to advances to suppliers for investment property additions (see Notes 10, 15 and 17). These 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, 2019 and 2018. 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 19 and 20). 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 *Retention Receivables*

In 2019, the Group sold certain parcels of land located in Aseana City to a third party buyer. The related 10% retention receivable as of December 31, 2019 amounted to P93.6 million, which is to be collected upon transfer of the land title to the buyer.

Retention receivables also include outstanding balances with a related party as of December 31, 2019 and 2018 (see Note 26.5).

9.5 *Other Receivables*

Other receivables include accrued interest income from short-term placements (see Note 8). It also include amounts collectible for rendering of certain services incidental to the Group's leasing and real estate business.

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. It also includes certain parcels of land previously classified as investment properties which will be developed for the Group's other residential projects (see Note 15). As of December 31, 2019, the Group has capital commitments relating to future development costs over these parcels of land.

The accumulated balance of Property Development Costs as presented in the consolidated statements of financial position amounted to as follows:

	<u>2019</u>	<u>2018</u>
MidPark Residences	P 525,006,783	P 457,677,960
Raw land	397,831,294	-
Pixel Residences	<u>245,222,630</u>	<u>253,733,214</u>
	<u>P1,168,060,707</u>	<u>P 711,411,174</u>

Cost of condominium units sold amounted to P314.5 million, P72.9 million, and P30.3 million in 2019, 2018 and 2017, respectively (see Notes 21.3 and 23) and are presented under Cost of Services and Sales section in the consolidated statements of profit or loss.

10.2 Contract Accounts

The significant changes in the contract asset and liability balances during the reporting periods are as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Contract Asset</u>	<u>Contract Liability</u>	<u>Contract Asset</u>	<u>Contract Liability</u>
Balance at beginning of year	P 166,652,337	P 210,459,821	P 47,301,272	P 124,328,053
Increase as a result of changes in measurement of progress	82,360,613	-	119,351,065	-
Revenue recognized that was included in contract liability at the beginning of year	-	(101,593,352)	-	(32,314,514)
Increase due to cash received excluding amount recognized as revenue during the year	<u>-</u>	<u>445,868,662</u>	<u>-</u>	<u>118,446,282</u>
Balance at end of year	<u>P 249,012,950</u>	<u>P 554,735,131</u>	<u>P 166,652,337</u>	<u>P 210,459,821</u>

Contract asset and liability is presented in the statement of financial position as at December 31, 2019 and 2018 as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Contract Asset</u>	<u>Contract Liability</u>	<u>Contract Asset</u>	<u>Contract Liability</u>
Current	P 54,191,980	P 130,492,147	P 63,668,674	P 101,593,352
Non-current	<u>194,820,970</u>	<u>424,242,984</u>	<u>102,983,663</u>	<u>108,866,469</u>
	<u>P 249,012,950</u>	<u>P 554,735,131</u>	<u>P 166,652,337</u>	<u>P 210,459,821</u>

The transaction price allocated to the remaining performance obligation (unsatisfied or partially satisfied) as at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Within one year	P 816,460,329	P1,002,125,188
More than one year to three years	<u>3,735,271,872</u>	<u>1,926,834,992</u>
	<u>P 4,551,732,201</u>	<u>P2,928,960,180</u>

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 238,009 square meters and 247,851 square meters as of December 31, 2019 and 2018, respectively.

The analysis of the movements of the balance of Land and Land Development Costs is as follows:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year		P 2,162,209,345	P 1,954,437,686
Reclassification	15	(231,572,755)	-
Additions during the year		148,600,941	207,811,737
Sales during the year	23	(66,743,881)	(40,078)
Balance at end of year		<u>P 2,012,493,650</u>	<u>P 2,162,209,345</u>

Management has estimated that the net realizable value of Land and Land Development Costs is higher than its carrying value as of December 31, 2019 and 2018. As of December 31, 2019 and 2018, 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 18). 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:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Short-term placements		P 2,060,000,000	P 1,400,000,000
Deferred input VAT		403,429,605	157,544,447
Input VAT		218,067,900	134,853,815
Prepayments		114,751,348	106,465,149
Financial assets at FVTPL	7.2	48,206,870	-
Contract acquisition costs	3.2(i)	32,934,611	49,255,546
Creditable withholding tax		<u>8,994,473</u>	<u>6,292,333</u>
		<u>P 2,886,384,807</u>	<u>P 1,854,411,290</u>

Short-term placement pertains to a time deposit with maturity of 102 days from date of acquisition. The related interest income amounting to P33.2 million and P11.8 million is included as part of Interest income under Finance income account in the consolidated statements of profit or loss (see Note 22.2) in 2019 and 2018, respectively, while accrued interest is presented as part of Others under Receivables account in the consolidated statements of financial position as of December 31, 2019 and 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.

Financial assets at FVTPL consist of investments in equity and convertible debt securities which are held for trading purposes. Fair value gain amounting to P0.4 million is recognized and presented as part of Finance income account in the 2019 consolidated statement of profit or loss (see Note 22.2).

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

This account consists of the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Investments in:			
Associates	13.1	P 49,043,168	P 49,168,560
Joint venture	13.2	<u>12,827,982</u>	<u>6,665,905</u>
		<u>P 61,871,150</u>	<u>P 55,834,465</u>

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.

	<u>2019</u>	<u>2018</u>
Acquisition costs	<u>P 56,913,213</u>	<u>P 56,913,213</u>
Accumulated share in net losses:		
Balance at beginning of year	(7,744,653)	(7,386,626)
Share in net losses	<u>(125,392)</u>	<u>(358,027)</u>
Balance at end of year	<u>(7,870,045)</u>	<u>(7,744,653)</u>
	<u>P 49,043,168</u>	<u>P 49,168,560</u>

The Group's associates include ERTI, ACBMDC and AHEC. Although AHEC is currently in the process of liquidation [see Note 1.2(r)], 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

As of the end of the reporting periods, the investment in joint venture consist only of 50% investment in BRADCO. In 2019, the investment in ABCC classified and presented as Investment in Joint Venture Held for Termination was reclassified to Investment Properties as this pertains to the land previously transferred in exchange for ABCC's shares of stock (see Note 15). As a result of the termination of the joint venture agreement (JV Agreement) [see Note 13.2(b)], ABCC has been considered as a subsidiary starting in 2019 as the remaining shares are now all held by the Parent Company in the same year. ABCC has not commenced operations since its incorporation and only incurred real property taxes and other administrative expenses. The effect of the reclassification amounting to P80.6 million (net of P36.2 million cumulative share in net losses of ABCC) representing the deficit of ABCC was recognized as an adjustment to the Retained Earnings account.

a) BRADCO

The movements in the carrying amount of investments in BRADCO, which is accounted for under the equity method in the consolidated financial statements of the Group, are shown below.

	<u>2019</u>	<u>2018</u>
Acquisition costs	P 2,000,000	P 2,000,000
Accumulated share in net income (losses):		
Balance at beginning of year	4,665,905	(2,000,000)
Share in net income	<u>6,162,077</u>	<u>6,665,905</u>
Balance at end of year	<u>10,827,982</u>	<u>4,665,905</u>
	<u>P 12,827,982</u>	<u>P 6,665,905</u>

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 Parent Company and AFPRSBS each owns 50% interest in the joint venture.

Pursuant to the JV 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 in the consolidated statements of financial position.

There are no significant risks, commitments, or contingencies related to the Group's interests in BRADCO during the reporting periods.

b) *ABCC*

On December 23, 2010, the Parent Company, WHI and Alphaland Development, Inc. (ADI) entered in a 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. Relative to this, the Parent Company recognized investment in ABCC, under a deed of assignment, representing 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.

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 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 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.

Also in 2018, 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. 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. The 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 and the remaining P850.0 million was received by the Parent Company in 2019 as completion of the second performance obligation. These are included as part of Other income account in the 2019 and 2018 consolidated statements of profit or loss, respectively (see Note 22.4).

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 retrospectively. Consequently, the Group restated its investment in ABCC to recognize such investment amounting to P127.1 million, which is equivalent to the previous carrying value of its parcels of land amounting to P163.3 million, net of P36.2 million cumulative share in net losses of ABCC (see Note 29.5). Furthermore, the Group classified the same asset, which is lower than its fair value less cost to terminate, under the Investment in Joint Venture Held for Termination account as of December 31, 2018 as the Group intended to recover the foregoing investment in ABCC held for termination through the receipt of the previously contributed investment property within one year from the end of 2018, subject to the fulfillment of the conditions as set forth in the SA by 2019.

Pursuant to the fulfillment of the conditions in 2019 as set forth in the SA and receipt of the previously contributed investment property, the Group reclassified the Investment in Joint Venture Held for Termination account to Investment Properties account (see Note 15). A portion of the Investment in Joint Venture Held for Termination account amounting to P10,000 was reclassified also to Investment in Subsidiaries representing the 100% ownership of the Group in ABCC and was eliminated during consolidation.

13.3 Financial Information of Associates and Joint Ventures

There were no associates or joint ventures which are considered material to the Group in 2019 and 2018.

No dividends were received from the associates and joint ventures in 2019, 2018 and 2017.

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 the prospect of the business of these associates and joint ventures.

13.4 Acquisition of Assets

On December 9, 2016, AHI acquired 100% equity ownership interest in 58 Jupiter. 58 Jupiter holds investment properties representing land and building (see Note 15).

In accordance with the Group's policy (see Note 2.17), the transaction is accounted 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 58 Jupiter 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 58 Jupiter is located at Escolta, Manila while its principal place of business is in Makati City.

13.5 Noncontrolling Interests

Noncontrolling interests 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.

	<u>2019</u>	<u>2018</u>
Current assets	P 1,788,984,895	P 75,565,033
Non-current assets	<u>5,660,135,683</u>	<u>6,057,966,977</u>
Total assets	<u>P 7,449,120,578</u>	<u>P 6,133,532,010</u>
Current liabilities	P 5,040,078,849	P 108,664,632
Non-current liabilities	<u>55,003,041</u>	<u>4,350,939,914</u>
Total liabilities	<u>P 5,095,081,890</u>	<u>P 4,459,604,546</u>
Equity	<u>P 2,354,038,688</u>	<u>P 1,673,927,464</u>
NCI in equity	<u>P 543,074,537</u>	<u>P 669,560,741</u>
Net income attributable to equity holders	<u>P 1,806,597,429</u>	<u>P 21,274,602</u>
Net income (loss) allocated to NCI	<u>(P 126,486,204)</u>	<u>P 14,194,891</u>

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 2019 and 2018 are shown below.

	<u>Land</u>	<u>Land Improvements</u>	<u>Leasehold Improvements</u>	<u>Machinery and Construction Equipment</u>	<u>Transportation Equipment</u>	<u>Furniture and Office Equipment</u>	<u>Other Equipment</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2019									
Cost	P 9,291,800	P 4,034,354	P 37,831,686	P 467,104,401	P 48,127,629	P 157,605,672	P 14,244,402	P 239,649,209	P 977,889,153
Accumulated depreciation and amortization	<u>-</u>	<u>(2,906,319)</u>	<u>(26,344,443)</u>	<u>(389,301,114)</u>	<u>(37,472,421)</u>	<u>(49,708,981)</u>	<u>(14,038,209)</u>	<u>(15,976,614)</u>	<u>(535,748,101)</u>
Net carrying amount	<u>P 9,291,800</u>	<u>P 1,128,035</u>	<u>P 11,487,243</u>	<u>P 77,803,287</u>	<u>P 10,655,208</u>	<u>P 107,896,691</u>	<u>P 206,193</u>	<u>P 223,672,595</u>	<u>P 442,141,052</u>
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 -	P 584,087,590
Accumulated depreciation and amortization	<u>-</u>	<u>(2,641,557)</u>	<u>(20,668,782)</u>	<u>(351,706,232)</u>	<u>(34,804,802)</u>	<u>(29,736,852)</u>	<u>(13,871,780)</u>	<u>-</u>	<u>(453,430,005)</u>
Net carrying amount	<u>P 9,291,800</u>	<u>P 1,392,797</u>	<u>P 15,778,456</u>	<u>P 86,279,190</u>	<u>P 9,567,827</u>	<u>P 7,974,893</u>	<u>P 372,622</u>	<u>P -</u>	<u>P 130,657,585</u>
January 1, 2018									
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 -	P 554,238,667
Accumulated depreciation and amortization	<u>-</u>	<u>(2,376,794)</u>	<u>(14,376,605)</u>	<u>(318,110,172)</u>	<u>(36,414,616)</u>	<u>(25,469,013)</u>	<u>(13,552,911)</u>	<u>-</u>	<u>(410,300,111)</u>
Net carrying amount	<u>P 9,291,800</u>	<u>P 1,657,560</u>	<u>P 21,930,655</u>	<u>P 98,125,438</u>	<u>P 2,850,019</u>	<u>P 9,391,593</u>	<u>P 691,491</u>	<u>P -</u>	<u>P 143,938,556</u>

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 of property and equipment is shown below.

	<u>Land</u>	<u>Land Improvements</u>	<u>Leasehold Improvements</u>	<u>Machinery and Construction Equipment</u>	<u>Transportation Equipment</u>	<u>Furniture and Office Equipment</u>	<u>Other Equipment</u>	<u>Building and Improvements</u>	<u>Total</u>
Balance at January 1, 2019, 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 -	P 130,657,585
Additions	-	-	1,384,448	29,118,979	3,755,000	119,893,927	-	-	154,152,354
Reclassification from investment properties [see Notes 3.1(e) and 15]	-	-	-	-	-	-	-	231,660,902	231,660,902
Depreciation and amortization charges for the year	-	(264,762)	(5,675,661)	(37,594,882)	(2,667,619)	(19,972,129)	(166,429)	(7,988,307)	(74,329,789)
Balance at December 31, 2019, net of accumulated depreciation and amortization	<u>P 9,291,800</u>	<u>P 1,128,035</u>	<u>P 11,487,243</u>	<u>P 77,803,287</u>	<u>P 10,655,208</u>	<u>P 107,896,691</u>	<u>P 206,193</u>	<u>P 223,672,595</u>	<u>P 442,141,052</u>
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 -	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	<u>P 9,291,800</u>	<u>P 1,392,797</u>	<u>P 15,778,456</u>	<u>P 86,279,190</u>	<u>P 9,567,827</u>	<u>P 7,974,893</u>	<u>P 372,622</u>	<u>P -</u>	<u>P 130,657,585</u>

As of December 31, 2019 and 2018, fully depreciated assets with original costs amounting to P340.2 million and P330.0 million, respectively, are still being used in operations.

The amount of depreciation and amortization is allocated as follows:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cost of construction contracts Capitalized as part of land and land development costs	21.1	P 1,407,880	P 14,464,456	P 7,721,327
General and administrative expenses	2.5(a)	36,145,587	14,588,572	22,395,603
	23	<u>36,776,322</u>	<u>14,076,866</u>	<u>11,654,856</u>
		<u>P 74,329,789</u>	<u>P 43,129,894</u>	<u>P 41,771,786</u>

The management believes that the carrying amount of property and equipment is recoverable in full; hence, no impairment loss is recognized in 2019, 2018 and 2017.

15. INVESTMENT PROPERTIES

The carrying amount of this account is composed of the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Investment properties – net		P 12,414,489,719	P 11,448,382,530
Right-of-use asset – net	2.18(a)(i), 16.1	<u>158,198,478</u>	<u>-</u>
		<u>P12,572,688,197</u>	<u>P 11,448,382,530</u>

The gross carrying amounts and the accumulated depreciation of investment properties (except Right-of-use Assets, see Note 16.1) at the beginning and end of 2019 and 2018 are shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Condominium Units</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2019					
Cost	P 8,867,542,310	P 2,797,479,316	P 25,228,650	P 1,270,510,090	P 12,960,760,366
Accumulated depreciation	<u>-</u>	<u>(541,754,063)</u>	<u>(4,516,584)</u>	<u>-</u>	<u>(546,270,647)</u>
Net carrying amount	<u>P 8,867,542,310</u>	<u>P 2,255,725,253</u>	<u>P 20,712,066</u>	<u>P 1,270,510,090</u>	<u>P 12,414,489,719</u>
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	<u>-</u>	<u>(445,344,411)</u>	<u>(3,507,438)</u>	<u>-</u>	<u>(448,851,849)</u>
Net carrying amount	<u>P 8,720,243,460</u>	<u>P 2,544,332,590</u>	<u>P 21,721,212</u>	<u>P 162,085,268</u>	<u>P 11,448,382,530</u>
January 1, 2018					
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	<u>-</u>	<u>(340,267,692)</u>	<u>(2,498,292)</u>	<u>-</u>	<u>(342,765,984)</u>
Net carrying amount	<u>P 8,720,243,460</u>	<u>P 1,418,968,557</u>	<u>P 22,730,358</u>	<u>P 946,745,476</u>	<u>P 11,108,687,851</u>

The reconciliation of the carrying amounts of investment properties (except Right-of-use Assets, see Note 16.1) at the beginning and end of 2019 and 2018 is shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Condominium Units</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2019, 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
Additions	150,263,640	3,274,693	-	1,152,601,653	1,306,139,986
Reclassification to property and equipment (see Note 14)	-	(231,660,902)	-	-	(231,660,902)
Reclassification of land to property development costs (see Note 10)	(397,831,294)	-	-	-	(397,831,294)
Reclassification from raw land (see Note 11)	231,572,755	-	-	-	231,572,755
Reclassification of land from investment in JV held for termination to investment property	163,293,749	-	-	-	163,293,749
Reclassification from CIP to building and improvements	-	44,176,831	-	(44,176,831)	-
Depreciation charges for the year	-	(104,397,959)	(1,009,146)	-	(105,407,105)
Balance at December 31, 2019, net of accumulated depreciation	<u>P 8,867,542,310</u>	<u>P 2,255,725,253</u>	<u>P 20,712,066</u>	<u>P 1,270,510,090</u>	<u>P 12,414,489,719</u>
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	<u>P 8,720,243,460</u>	<u>P 2,544,332,590</u>	<u>P 21,721,212</u>	<u>P 162,085,268</u>	<u>P 11,448,382,530</u>

The amount of depreciation is allocated as follows:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cost of rentals	21.2	P 102,187,258	P 103,185,483	P 65,464,981
General and administrative expenses	23	<u>3,219,847</u>	<u>2,900,382</u>	<u>3,420,766</u>
		<u>P 105,407,105</u>	<u>P 106,085,865</u>	<u>P 68,885,747</u>

a) Building and Improvements

Building and improvements include the building of 58 Jupiter 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 28.1). 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 nil in 2019, P28.3 million in 2018 and P16.3 million in 2017, at a capitalization rate of 3.0% to 5.3% in 2018 and 2.8% to 3.4% in 2017 (see Note 18).

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 26 and 31). There was no similar transaction in 2018 and 2019.

In 2017, the Group sold certain investment properties to third parties with selling price amounting to P400.9 million which resulted in the recognition of gain on sale of investment properties amounting to P257.7 million and is presented as part of Other Operating Income account in the 2017 consolidated statement of profit or loss (see Note 22.3). There were no outstanding balances arising from the sale transactions as of December 31, 2017. There was no similar transaction in 2018 and 2019.

In 2019 and 2017, the Group reclassified certain parcels of land which were previously presented under Land and Land Development Costs to Investment Properties amounting to P231.6 million and P54.7 million, respectively (see Notes 11 and 31). The reclassification resulted from the change in management use evidenced by rentals for the parcels of land in 2017 and in 2019.

Similarly, in 2019, the land under the Investment in Joint Venture Held for Termination amounting to P163.3 million relating to the Parent Company's investment in ABCC was reclassified back to investment property [see Note 13.2(b)]. A reclassification was also made from Investment Properties to Property Development Costs amounting to P397.9 million in 2019 as such land will be developed for the Group's other residential projects (see Note 10.1).

Land also include the property owned by 58 Jupiter 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 P1,772.5 million, P1,727.4 million and P1,349.1 million in 2019, 2018 and 2017, 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 21.2).

The fair value of investment properties amounted to P124,750.1 million and P101,029.1 million as of December 31, 2019 and 2018, 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 2019, 2018 and 2017.

Certain investment properties with carrying amount of P301.5 million as of December 31, 2019 and 2018 are used as collateral for certain loans with local banks (see Note 18).

16. LEASES

The Group leases certain parcels of land from WHI (see Note 26.3) where the Group's investment property is situated. Such lease has original term of 15 years and subject to escalation rate of 3% and enforceable renewal/extension options. The lease with WHI is reflected on the 2019 consolidated statement of financial position as a right-of-use asset under Investment Properties [see Notes 2.18(a)(i) and 15] and a lease liability.

The lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. A lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Group is prohibited from selling or pledging the underlying leased assets as security. Further, the Group must insure the leased assets and incur maintenance fees on such items in accordance with the lease contract.

16.1 Right-of-use Asset

The carrying amount of the Group's right-of-use asset as at December 31, 2019 and the movements during the period are shown below (see Note 15).

Balance at beginning of year	P 163,848,424
Depreciation and amortization	(<u>5,649,946</u>)
Balance at end of year	<u>P 158,198,478</u>

Depreciation of the Group's right-of-use asset is presented in the 2019 consolidated statement of profit or loss as part of Cost of Rentals (see Note 21.2).

16.2 Lease Liability

Lease liability is presented in the consolidated statement of financial position as at December 31, 2019 as follows:

Current	P 11,282,400
Non-current	<u>153,101,312</u>
	<u>P 164,383,712</u>

Interest expense is presented as part of Finance Costs in the 2019 consolidated statement of profit or loss (see Note 22.1).

The movements in the lease liability recognized in the 2019 consolidated statement of financial position are as follows:

Balance as of December 31, 2018	P -
Effect of adoption of PFRS 16	<u>163,848,424</u>
Balance as of January 1, 2019	163,848,424
Interest expense	11,299,906
Lease payment	(<u>10,764,618</u>)
Balance as of December 31, 2019	<u>P 164,383,712</u>

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's business strategy and the economic benefits of exercising the option exceeds the expected overall cost. However, the Group is not potentially exposed to future cash outflows relating to its existing lease with WHI as it does not require any termination fee and similarly has no advance rentals or lease deposit that would be forfeited in case of termination.

As of December 31, 2019, the Group has no commitments for leases (as lessee) entered into but which had not commenced.

The lease liability is secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows:

	<u>1 to 15 years</u>	<u>16 to 29 years</u>	<u>Total</u>
Lease payment	P 199,787,631	P 243,087,065	P 442,874,696
Finance charge	<u>(186,214,022)</u>	<u>(92,276,962)</u>	<u>(278,490,984)</u>
	<u>P 13,573,609</u>	<u>P 150,810,103</u>	<u>P 164,383,712</u>

16.3 Other Information

The Group has elected not to recognize a lease liability for any applicable low value assets and short-term leases. Payments made under such leases are expensed on straight-line basis.

Consequently, low value leases amounting to P0.2 million is presented as part of Others under General and Administrative account in the 2019 consolidated statement of profit or loss (see Note 23). On the other hand, the Group has no short-term leases.

17. OTHER NON-CURRENT ASSETS

This account includes the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Advances to suppliers	9.2	P 814,408,025	P 436,224,883
Project advances	17.3	106,181,626	97,185,923
Financial assets at FVOCI	17.2	75,876,143	74,755,905
Deposits for future investment	17.1	54,026,935	54,026,935
Refundable deposits	17.4	47,362,548	52,254,083
Contract acquisition costs	3.2(i)	5,503,473	5,503,473
Others		<u>2,687,616</u>	<u>3,637,164</u>
		<u>P 1,106,046,366</u>	<u>P 723,588,366</u>

17.1 Deposits for Future Investment

Included in the deposits for future investment as of December 31, 2019 and 2018 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, 2019 and 2018.

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, 2019 and 2018, the deposits made by the Group amounted to P13.7 million.

17.2 Financial Assets at Fair Value Through Other Comprehensive Income

The reconciliation of the carrying amounts of financial assets at FVOCI is as follows:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year		P 74,755,905	P 74,536,260
Unrealized fair value gains	28.2	<u>1,120,238</u>	<u>219,645</u>
Balance at end of year		<u>P 75,876,143</u>	<u>P 74,755,905</u>

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).

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 28.2).

17.3 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, 2019 and 2018, 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, 2019 and 2018.

17.4 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.

18. 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:

	<u>2019</u>	<u>2018</u>
Current	P 114,670,000	P 1,417,170,000
Non-current	<u>397,050,000</u>	<u>511,750,000</u>
	<u>P 511,720,000</u>	<u>P 1,928,920,000</u>

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 6.25% per annum, 3.60% to 5.75% per annum and 3.00% to 3.25% per annum in 2019, 2018 and 2017, 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, 2019 and 2018, bank loans are partially secured by certain assets as follows:

	<u>Notes</u>	
Investment properties	15	P 301,525,742
Land and land development costs	11	<u>44,230,441</u>
		<u>P 345,756,183</u>

The reconciliation of the carrying amounts of the Group's loans and borrowings arising from financing activities is shown below.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 1,928,920,000	P 2,476,902,945
Repayments	(1,417,200,000)	(1,552,982,945)
Additional borrowings	<u>-</u>	<u>1,005,000,000</u>
Balance at end of year	<u>P 511,720,000</u>	<u>P 1,928,920,000</u>

In 2019, 2018 and 2017, interest costs related to bank loans amounted to P82.2 million, P64.5 million and P65.9 million, respectively, and were recognized as part of Interest expense under Finance costs account in the consolidated statements of profit or loss (see Note 22.1). On the other hand, capitalized borrowing costs in 2018 amounted to P28.3 million (see Note 15). There is no unpaid interest related to bank loans as of December 31, 2019 and 2018.

Except as disclosed in Note 30, the Group has no significant loan covenants as of December 31, 2019 and 2018.

19. TRADE AND OTHER PAYABLES

This account consists of the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Deferred output VAT payable		P 515,329,381	P 280,364,702
Accrued expenses		229,829,333	216,842,603
Trade payables	26.7	204,421,304	370,014,513
Retention payable		159,328,216	121,189,596
Other payables		<u>86,668,254</u>	<u>25,549,317</u>
		<u>P 1,195,576,488</u>	<u>P 1,013,960,731</u>

Deferred output VAT payable relates to outstanding receivables from construction contracts and sale of land as of the end of the reporting periods.

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.

Other payables include withholding taxes on compensation, expanded withholding taxes and other statutory liabilities that are expected to be settled within 12 months from the end of each reporting period.

20. DEPOSITS AND ADVANCES

This account consists of:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Current:			
Reservation deposits	2.16(c)	P 598,874,586	P 294,014,598
Advance rentals		386,094,175	381,340,153
Construction bond	9.3	51,053,388	47,566,440
Rental deposits		46,376,641	54,400,070
Unearned rent income		8,484,087	9,625,087
Buyers' deposits	2.16(a)	1,009,196	1,009,196
Others		<u>5,381,949</u>	<u>5,596,053</u>
		<u>1,097,274,022</u>	<u>793,551,597</u>
Non-current:			
Rental deposits		217,053,912	182,589,901
Retention payable		97,644,206	14,280,510
Advance rentals		66,323,127	234,512,765
Unearned rent income		65,758,541	67,617,063
Buyers' deposits	2.16(a)	5,827,833	5,827,833
Others		<u>-</u>	<u>30,900</u>
		<u>452,607,619</u>	<u>504,858,972</u>
		<u>P 1,549,881,641</u>	<u>P 1,298,410,569</u>

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 25).

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.

21. COSTS OF SERVICES AND SALES

21.1 Cost of Construction Contracts

The details of cost of construction contracts are shown below.

	Notes	2019	2018	2017
Subcontract services	26.8	P 28,044,714	P 30,723,774	P 42,456,220
Construction materials		15,190,908	13,246,474	71,841,745
Depreciation and amortization	14	1,407,880	14,464,456	7,721,327
Gasoline and oil		702,373	1,206,026	-
Salaries and employee benefits	24.1	555,572	1,868,051	10,215,311
	23	<u>P 45,901,447</u>	<u>P 61,508,781</u>	<u>P 132,234,603</u>

21.2 Cost of Rentals

The following are the details of direct costs and expenses of rentals, including common usage and service area charges:

	Notes	2019	2018	2017
Depreciation	15, 16.1	P 107,837,204	P 103,185,483	P 65,464,981
Real property tax		45,824,623	23,209,168	21,414,885
Outside services		31,298,846	26,249,185	19,581,760
Utilities		29,482,200	16,435,443	6,506,540
Repairs and maintenance		13,390,266	17,498,386	9,589,936
Office supplies		13,357,723	8,631,715	3,245,176
Professional fees		9,985,598	7,659,353	4,671,968
Others		16,024,982	9,492,510	5,274,210
	23	<u>P 267,201,442</u>	<u>P 212,361,243</u>	<u>P 135,749,456</u>

Others includes cost of janitorial services, garbage fees and other incidental fees.

21.3 Cost of Sale of Condominium Units

The following are the details of direct costs and expenses of condominium units sold:

	Notes	2019	2018	2017
Development costs		P 253,420,496	P 60,377,372	P 24,683,471
Land cost		40,754,932	8,292,309	3,334,186
Others		20,285,628	4,206,037	2,314,597
	10.1, 23	<u>P 314,461,056</u>	<u>P 72,875,718</u>	<u>P 30,332,254</u>

Development costs pertain to work done by third party contractors relating to planning, design, architectural, and construction of the condominium units.

Others include permits and licenses, development charges, surveying, monumenting and titling fees.

22. OTHER OPERATING AND NON-OPERATING INCOME (CHARGES)

Presented below are the details of other income (charges).

22.1 Finance Costs

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest expense:				
Bank loans	18	P 82,227,742	P 64,529,725	P 65,929,168
Lease liability	16.2	11,299,906	-	-
Retirement benefit obligation	24.2	2,070,529	1,875,261	4,005,985
Foreign currency loss		<u>177,894</u>	<u>-</u>	<u>-</u>
		95,776,071	66,404,986	69,935,153
Others	9.4	<u>2,748,896</u>	<u>3,446,556</u>	<u>2,171,936</u>
		<u>P 98,524,967</u>	<u>P 69,851,542</u>	<u>P 72,107,089</u>

22.2 Finance Income

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest income	8, 12	P 296,920,773	P 66,668,597	P 7,154,349
Fair value gain on financial assets at FVTPL	12	417,500	-	-
Foreign currency gain		<u>-</u>	<u>2,854,408</u>	<u>9,394</u>
		<u>P 297,338,273</u>	<u>P 69,523,005</u>	<u>P 7,163,743</u>

22.3 Other Operating Income

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income from rendering of administrative and other services	26.6	P 43,348,238	P 37,019,684	P 24,472,468
Gain on sale of investment property	15	-	-	257,686,063
Others	9.4	<u>10,907,556</u>	<u>72,504,606</u>	<u>11,355,500</u>
		<u>P 54,255,794</u>	<u>P 109,524,290</u>	<u>P 293,514,031</u>

Others also includes parking fee income, vetting fee and signage rental.

22.4 Other Income

Other income presented in the 2019 and 2018 consolidated statements of profit or loss included the income recognized from the Consideration Agreement amounting to P850.0 million in 2019 and P1,200.0 million in 2018. [see Note 13.2(b)].

23. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2019	2018	2017
Development costs		P 253,420,496	P 60,377,372	P 24,683,471
Depreciation and amortization	14, 15, 16	149,241,253	134,627,187	88,261,930
Salaries and employee benefits	24.1	137,508,259	114,436,104	110,608,579
Taxes and licenses		130,166,238	93,340,624	76,711,135
Commission		117,060,351	55,117,782	57,663,408
Cost of sale of land	11	66,743,881	40,078	141,520,283
Land cost	21.3	40,754,932	8,292,309	3,334,186
Impairment loss on financial assets	5.2(b), 26	41,246,758	8,345,199	1,032,217
Outside services		38,475,516	31,742,930	25,551,659
Representation and entertainment		36,761,781	29,649,513	27,315,681
Utilities		34,718,873	21,524,241	11,447,219
Association dues	26.7	33,320,380	26,177,767	31,329,646
Subcontract services	26.8	28,044,714	30,723,774	42,456,220
Office supplies		24,627,158	18,538,071	8,264,166
Professional fees		29,930,579	139,192,160	101,529,631
Repairs and maintenance		17,379,340	23,242,913	13,101,312
Bond and insurance		19,951,721	13,418,161	7,586,107
Construction materials and spare parts		15,190,908	13,246,474	71,841,745
Corporate affairs		10,028,359	9,527,077	6,501,742
Transportation and travel		6,172,001	10,347,309	3,991,897
Donation		-	-	19,906,877
Others	16.3	66,020,297	47,607,921	38,775,638
		<u>P 1,296,763,795</u>	<u>P 889,514,966</u>	<u>P 913,414,749</u>

Others include gasoline and oil, postage and communication, bid documents, subsistence, low value leases and other incidental expenses under the ordinary course of business.

These expenses are classified in the consolidated statements of profit or loss as follows:

	Notes	2019	2018	2017
Cost of sale of condominium units	10.1, 21.3	P 314,461,056	P 72,875,718	P 30,332,254
Cost of rentals	21.2	267,201,442	212,361,243	135,749,456
Cost of sale of land	11	66,743,881	40,078	141,520,283
Cost of construction contracts	21.1	45,901,447	61,508,781	132,234,603
General and administrative expenses		473,632,491	477,827,022	412,273,915
Selling expenses		128,823,478	64,902,124	61,304,238
		<u>P 1,296,763,795</u>	<u>P 889,514,966</u>	<u>P 913,414,749</u>

The details of general and administrative expenses are shown below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salaries and employee benefits	24.1	P 136,952,687	P 112,568,053	P 100,393,268
Taxes and licenses		84,341,615	70,131,456	55,296,250
Impairment loss on financial assets	5.2(b), 26	41,246,758	8,345,199	1,032,217
Representation and entertainment		36,761,781	29,649,513	27,315,681
Association dues	26.7	33,320,380	26,177,767	31,329,646
Depreciation and amortization	14, 15, 16	39,996,169	16,977,248	15,075,622
Professional fees		19,334,981	131,532,807	96,857,663
Office supplies		11,269,435	9,906,356	5,018,990
Corporate affairs		10,028,359	9,527,077	6,501,742
Outside services		7,176,670	5,493,745	5,969,899
Transportation and travel		6,172,001	10,347,309	3,991,897
Utilities		5,236,673	5,088,798	4,940,679
Repairs and maintenance		3,989,074	5,744,527	3,511,376
Bond and insurance		3,926,729	3,925,651	2,311,897
Donation		-	-	19,906,877
Others	16.3	<u>33,879,179</u>	<u>32,411,516</u>	<u>32,820,211</u>
		<u>P 473,632,491</u>	<u>P 477,827,022</u>	<u>P 412,273,915</u>

Others include gasoline and oil, postage and communication, bid documents, subsistence, low value leases and other incidental expenses under the ordinary course of business.

24. EMPLOYEE BENEFITS

24.1 Salaries and Employee Benefits Expense

The details of salaries and employee benefits are presented below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Short-term employee benefits		P 135,217,751	P 112,335,781	P 108,628,286
Post-employment defined benefit	24.2	<u>2,290,508</u>	<u>2,100,323</u>	<u>1,980,293</u>
	23	<u>P 137,508,259</u>	<u>P 114,436,104</u>	<u>P 110,608,579</u>

Salaries and employee benefits are classified and presented in the consolidated statements of profit or loss as follows:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cost of construction contracts	21.1	P 555,572	P 1,868,051	P 10,215,311
General and administrative expenses	23	<u>136,952,687</u>	<u>112,568,053</u>	<u>100,393,268</u>
	23	<u>P 137,508,259</u>	<u>P 114,436,104</u>	<u>P 110,608,579</u>

24.2 Post-employment Defined Benefit Obligation

(a) Characteristics of the Post-employment Defined Benefit Plan

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 manages 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, 2019, 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 2019, 2018 and 2017.

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	<u>2019</u>	<u>2018</u>
Present value of the obligation	P 56,916,643	P 70,288,717
Fair value of plan assets	(53,419,139)	(42,644,803)
	<u>P 3,497,504</u>	<u>P 27,643,914</u>

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 70,288,717	P 65,698,627
Current service cost	2,290,508	2,100,323
Interest expense	5,264,625	3,744,822
Actuarial losses (gains)		
arising from:		
- experience adjustments	(28,370,524)	6,822,830
- changes in financial assumptions	8,435,797	(6,205,067)
Benefits paid	(992,480)	(1,872,818)
Balance at end of year	<u>P 56,916,643</u>	<u>P 70,288,717</u>

The movements in the fair value of plan assets are presented below.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 42,644,803	P -
Remeasurement gain (loss) - return on plan assets (excluding amounts included in net interest)	7,580,240	(24,823,385)
Interest income	3,194,096	1,869,561
Contributions to the plan	<u>-</u>	<u>65,598,627</u>
Balance at end of year	<u>P 53,419,139</u>	<u>P 42,644,803</u>

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	<u>2019</u>	<u>2018</u>
Quoted equity securities	P 53,419,139	P 42,575,520
Unit investment trust fund	<u>-</u>	<u>69,283</u>
	<u>P 53,419,139</u>	<u>P 42,644,803</u>

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 26.4).

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:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Recognized in consolidated profit or loss:</i>				
Current service cost	24.1	P 2,290,508	P 2,100,323	P 1,980,293
Net interest expense	22.1	<u>2,070,529</u>	<u>1,875,261</u>	<u>4,005,985</u>
		<u>P 4,361,037</u>	<u>P 3,975,584</u>	<u>P 5,986,278</u>
<i>Recognized in consolidated other comprehensive income:</i>				
Actuarial losses (gains) arising from:				
- experience adjustments		(P 28,370,524)	P 6,822,830	(P 13,003,686)
- remeasurement loss (gain) on plan assets		(7,580,240)	24,823,385	-
- changes in financial assumptions		<u>8,435,797</u>	<u>(6,205,067)</u>	<u>(1,335,833)</u>
	28.2	<u>(P 27,514,967)</u>	<u>P 25,441,148</u>	<u>(P 14,339,519)</u>

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 24.1).

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 22.1).

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:

	<u>2019</u>	<u>2018</u>
Discount rates	5.19%	7.49%
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 22.7 years and 20.5 years as of December 31, 2019 and 2018, 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) *Risks 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) *Investment and Interest Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investment in equity securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

(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 and in the succeeding page.

(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, 2019 and 2018:

	<u>Impact on Post-employment Defined Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2019</u>			
Discount rate	+/- 1.0%	(P 4,054,228)	P 4,789,393
Salary growth rate	+/- 1.0%	4,849,047	(4,170,654)
<u>December 31, 2018</u>			
Discount rate	+/- 1.0%	(P 2,774,716)	P 3,245,440
Salary growth rate	+/- 1.0%	3,363,591	(2,912,317)

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 22.7 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan as of December 31 follows:

	<u>2019</u>	<u>2018</u>
Within one year	P 23,939,088	P 45,338,438
More than one year to five years	4,539,694	3,546,855
More than five years to 10 years	<u>13,007,844</u>	<u>12,622,476</u>
	<u>P 41,486,626</u>	<u>P 61,507,769</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 7.8 years.

25. 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Reported in consolidated profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	P 965,532,781	P 437,385,496	P 316,700,311
Final tax at 20% and 7.5%	59,723,260	13,251,558	938,556
Minimum corporate income tax (MCIT) at 2%	2,814	25,033	346,670
Capital gains tax at 6%	<u>-</u>	<u>-</u>	<u>24,054,600</u>
	1,025,258,855	450,662,087	342,040,137
Utilization of excess MCIT over RCIT	(61,278)	<u>-</u>	(152,796)
	1,025,197,577	450,662,087	341,887,341
Deferred tax expense relating to origination and reversal of temporary differences	50,035,852	206,856,776	192,833,378
	<u>P 1,075,233,429</u>	<u>P 657,518,863</u>	<u>P 534,720,719</u>
<i>Reported in consolidated other comprehensive income –</i>			
Deferred tax expense (income) relating to remeasurement of retirement benefit obligation	<u>P 8,254,490</u>	<u>(P 7,632,344)</u>	<u>P 4,301,856</u>

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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Tax on pretax profit at 30%	P 998,161,184	P 773,494,560	P 627,752,805
Adjustment for income subjected to lower tax rates	(29,559,371)	(4,611,353)	(51,599,352)
Tax effects of:			
Non-deductible expenses and other taxable income eliminated during consolidation	612,064,445	9,306,915	9,247,827
Excess of optional standard deduction (OSD) over itemized deductions	(447,627,912)	(122,029,220)	(50,510,106)
Non-taxable income	(60,441,740)	(3,914,058)	(2,398,142)
Unrecognized deferred tax on net operating loss carryover (NOLCO) and other temporary differences	2,748,326	4,840,404	2,266,996
Applied MCIT	(61,278)	-	-
Utilization of previously unrecognized DTA on NOLCO	(29,459)	-	-
Applied NOLCO	(20,766)	(199,309)	(39,309)
Derecognition of deferred tax asset on expired NOLCO and MCIT	<u>-</u>	<u>630,924</u>	<u>-</u>
	<u>P 1,075,233,429</u>	<u>P 657,518,863</u>	<u>P 534,720,719</u>

The net deferred tax liabilities relate to the following as of December 31:

	<u>2019</u>	<u>2018</u>
Net deferred tax assets:		
Excess deferred gross profit on sale of condominium units	P 170,306,215	P 47,941,716
Allowance for impairment of receivables	<u>629,774</u>	<u>-</u>
	<u>170,935,989</u>	<u>47,941,716</u>
Net deferred tax liabilities:		
Accrued rent income based on PFRS 16 (previously PAS 17)	(1,104,421,225)	(941,236,396)
Advance rentals	134,591,368	181,272,921
Allowance for impairment on receivables	28,021,475	14,348,222
ROU and lease liabilities	22,720,110	-
Retirement benefit obligation	22,247,937	28,533,631
Revaluation increment on land	(5,714,368)	(5,714,368)
Unrealized foreign currency loss NOLCO	293,175	-
	-	2,159,164
Unrealized foreign currency gain MCIT	-	(884,473)
	-	544,386
	<u>(902,261,528)</u>	<u>(720,976,913)</u>
Net deferred tax liabilities	<u>(P 731,325,539)</u>	<u>(P 673,035,197)</u>

Movements in net deferred tax liabilities for the years ended December 31, 2019, 2018 and 2017 are as follows:

	<u>Profit or Loss</u>			<u>Other Comprehensive Income</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accrued rent income based on PFRS 16 (previously PAS 17)	P 163,184,829	P 215,842,863	P 180,631,343	P -	P -	P -
Excess deferred gross profit on sale of condominium units	(122,364,499)	(25,551,237)	(20,806,819)	-	-	-
Advance rentals	46,681,553	17,161,035	35,839,344	-	-	-
ROU and lease liabilities	(22,720,110)	-	-	-	-	-
Allowance for impairment of receivables	(14,303,027)	(574,560)	(309,665)	-	-	-
NOLCO	2,159,164	2,881,604	295,123	-	-	-
Retirement benefit obligation	(1,968,796)	(1,191,699)	(1,505,911)	8,254,490	(7,632,344)	4,301,856
Unrealized foreign currency loss	(1,177,648)	-	(271,502)	-	-	-
MCIT	544,386	77,182	(17,374)	-	-	-
Deferred gain on sale of land	-	2,670,540	2,670,540	-	-	-
Unrealized foreign currency gains	-	882,128	-	-	-	-
Unrealized gross profit on sale of land	-	-	(3,691,701)	-	-	-
Deferred tax expense (income) – net	<u>P 50,035,852</u>	<u>P 206,856,776</u>	<u>P 192,833,378</u>	<u>P 8,254,490</u>	<u>(P 7,632,344)</u>	<u>P 4,301,856</u>

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 2019, 2018 and 2017 since RCIT was higher than MCIT, except for R-1 which was subjected to MCIT, ACTTC in 2018, and R-1, FI and BAHI in 2017.

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 total recognized and unrecognized deferred tax assets relating to NOLCO and MCIT is presented below.

	<u>2019</u>		<u>2018</u>	
	<u>Recognized</u>	<u>Unrecognized</u>	<u>Recognized</u>	<u>Unrecognized</u>
NOLCO	P -	P 9,327,847	P 2,159,164	P 7,978,378
MCIT	-	<u>336,851</u>	<u>544,386</u>	<u>262,866</u>
	<u>P -</u>	<u>P 9,664,698</u>	<u>P 2,703,550</u>	<u>P 8,241,244</u>

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.

<u>Year Incurred</u>	<u>Amount</u>	<u>Applied</u>	<u>Expired</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
NOLCO:					
2019	P 9,122,820	P -	P -	P 9,122,820	2022
2018	9,621,235	-	-	9,621,235	2021
2017	12,348,767	-	-	12,348,767	2020
2016	<u>16,144,212</u>	<u>(4,391,627)</u>	<u>(11,752,585)</u>	<u>-</u>	
	<u>P 47,237,034</u>	<u>(P 4,391,627)</u>	<u>(P 11,752,585)</u>	<u>P 31,092,822</u>	
MCIT:					
2019	P 2,814	P -	P -	P 2,814	2022
2018	25,033	-	-	25,033	2021
2017	370,282	(61,278)	-	309,004	2020
2016	<u>564,733</u>	<u>(152,796)</u>	<u>(411,937)</u>	<u>-</u>	
	<u>P 962,862</u>	<u>(P 214,074)</u>	<u>(P 411,937)</u>	<u>P 336,851</u>	

In 2019, 2018 and 2017, the Group claimed itemized deductions in computing its income tax due, except for the Parent Company, which opted to claim OSD in 2019, 2018 and 2017; BAHI, which opted to claim OSD in 2019; and, AHI, which opted to claim OSD in 2018 and 2017.

26. 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 in the succeeding page.

The summary of the Group's significant transactions in 2019, 2018 and 2017 with its related parties and the outstanding balances as of December 31, 2019 and 2018 are presented below and in the succeeding pages.

Related Party Category	Note	Outstanding Balances		Amount of Transactions		
		2019	2018	2019	2018	2017
Ultimate parent company:						
Cash advances granted	26.1	P 436,680,854	P 430,355,411	P 6,325,443	P 29,930,357	P 380,708,845
Advances from purchase of land	26.2	(4,311,708,305)	(4,604,167,018)	292,458,713	40,000,000	-
Transfer of parcels of land	26.10	-	262,230,400	(262,230,400)	(215,909,600)	478,140,000
Right-of-use assets	26.3	158,198,478	-	158,198,478	-	-
Lease liability	26.3	(164,383,712)	-	(164,383,712)	-	-
Depreciation	26.3	-	-	5,649,946	-	-
Interest expense	26.3	-	-	11,299,906	-	-
Associates:						
Cash advances granted	26.1	7,352,828	7,150,430	202,398	367,850	320,257
Rentals	26.3	-	-	-	55,405	198,412
Joint ventures:						
Cash advances granted (collected)	26.1	44,999,065	96,067,379	(51,068,314)	563,814	317,640
Construction contracts	26.5	55,570,424	28,912,993	26,657,431	-	-
Co-joint venturer:						
Cash advances paid (obtained)	26.2	(40,026,017)	-	(40,026,017)	-	-
Related parties under common ownership and management:						
Cash advances granted (collected)	26.1	171,615,532	179,755,559	(8,140,027)	7,484,049	(375,160,772)
Cash advances paid (obtained)	26.2	-	(7,007,796)	7,007,796	(6,578,958)	8,960,439
Association dues	26.7	17,428,870	32,508,043	32,618,698	26,177,767	24,441,174
Contracts of services	26.8	-	-	26,498,598	28,254,600	9,073,066
Other income	26.6	-	-	14,400,000	14,400,000	14,400,000
Rentals	26.3	-	-	58,175	115,795	260,665
Stockholders:						
Cash advances granted (collected)	26.1	84,003,075	74,993,907	9,009,168	22,893,817	(89,077,364)
Cash advances paid (obtained)	26.2	-	-	-	11,461,396	(1,219,082)
Purchase of parcels of land	15(b)	-	-	-	-	67,000,000
Key management personnel –						
Compensation	26.9	-	-	56,202,722	53,507,930	54,300,000
Retirement Fund						
	26.4	53,419,139	42,644,803	10,744,336	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. Impairment losses in 2019, 2018 and 2017 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 23) while the disclosure on allowance for ECL is fully disclosed in Note 5.2(b).

26.1 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).

	<u>2019</u>	<u>2018</u>
Ultimate parent company	P 436,680,854	P 430,355,411
Related parties under common ownership and management	171,615,532	179,755,559
Stockholders	84,003,075	74,993,907
Joint ventures	44,999,065	96,067,379
Associates	<u>7,352,828</u>	<u>7,150,430</u>
	<u>P 744,651,354</u>	<u>P 788,322,686</u>

The movements in the carrying amount of the advances to related parties in 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 788,322,686	P 727,082,799
Additions	376,675,636	126,377,851
Collections	(420,346,968)	(65,137,964)
Balance at end of year	<u>P 744,651,354</u>	<u>P 788,322,686</u>

26.2 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. These also include the portion of advances owed to ADI, which is presented as part of Advances from a Co-Joint Venturer in the 2019 consolidated statement of financial position.

Advances from and due to related parties and portion of advances owed to ADI, which is presented as current liabilities consist of:

	<u>2019</u>	<u>2018</u>
Ultimate parent company	P 4,311,708,305	P 4,604,167,018
Co-joint venturer	40,026,017	-
Related parties under common ownership and management	<u>-</u>	<u>7,007,796</u>
	<u>P 4,351,734,322</u>	<u>P 4,611,174,814</u>

Advances from and due to related parties and the portion of advances owed to 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 in the succeeding page.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 4,611,174,814	P 4,656,057,252
Repayments	(323,999,539)	(44,882,438)
Advances assumed due to consolidation of ABCC	<u>64,559,047</u>	<u>-</u>
Balance at end of year	<u>P 4,351,734,322</u>	<u>P 4,611,174,814</u>

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.

26.3 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 P0.1 million in 2019, P0.2 million in 2018 and P0.5 million in 2017 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, 2019 and 2018.

The Group entered into a lease agreement with the Ultimate Parent Company for certain parcels of land with lease term of 30 years. In 2019, in accordance with PFRS 16 (see Note 16), the Group recognized right-of-use asset and lease liability amounting to P163.8 million for this lease arrangement. The Group incurred depreciation expense and interest expense amounting to P5.6 million and P11.3 million, respectively, in 2019.

26.4 Transactions with the Retirement Fund

As discussed in Note 24.2, the Group is in the process of establishing 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, 2019.

26.5 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 P50.9 million and P27.1 million and retention receivable amounting to P4.7 million and P1.8 million as of December 31, 2019 and 2018, respectively, are included as part of Contract receivables and Retention receivables under Receivables account in the consolidated statements of financial position (see Note 9).

26.6 Other Income from Rendering of Administrative Services

The Group recognized income amounting to P14.4 million in 2019, 2018 and 2017 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 22.3). There are no outstanding receivables related to these transactions.

26.7 Association Dues

The Group incurred association dues amounting to P32.6 million, P26.2 million and P24.4 million in 2019, 2018 and 2017, 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 23). Outstanding payables, which are due upon demand, related to these transactions amounting to P17.4 million and P32.5 million as of December 31, 2019 and 2018, respectively, are included as part of Trade payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 19).

26.8 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 P26.5 million P28.3 million, and P9.1 million for the years ended December 31, 2019, 2018 and 2017, 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 21.1). There was no outstanding liability related to this transaction as of December 31, 2019 and 2018.

26.9 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 P56.2 million, P53.5 million, and P54.3 million in 2019, 2018 and 2017, respectively. There are no outstanding liabilities arising from this transaction.

26.10 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. 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.

27. EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net profit attributable to the equity holders of the Parent Company	P 2,374,037,110	P 1,911,245,490	P 1,558,462,597
Divided by weighted average number of outstanding common shares*	<u>3,395,864,100</u>	<u>3,056,277,650</u>	<u>2,716,691,200</u>
Basic and diluted earnings per share	<u>P 0.699</u>	<u>P 0.625</u>	<u>P 0.574</u>

*The Group has no potential dilutive common shares as of December 31, 2019, 2018 and 2017.

28. EQUITY

28.1 Capital Stock

The Parent Company's capital stock consists of:

	<u>Shares</u>		<u>Amount</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Common shares – P1.00 par value in 2019 and 2018				
Authorized – 4,000.0 million shares in 2019 and 2018				
Issued and outstanding:				
Balance at beginning of year	3,395,864,100	2,716,691,200	P 3,395,864,100	P 2,716,691,200
Issuances during the year	<u>-</u>	<u>679,172,900</u>	<u>-</u>	<u>679,172,900</u>
Balance at end of year	<u>3,395,864,100</u>	<u>3,395,864,100</u>	<u>P 3,395,864,100</u>	<u>P 3,395,864,100</u>

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 P9.9 per share as of December 31, 2019.

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 Note 15).

As of December 31, 2019, 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.

28.2 Revaluation Reserves

The movements of this account in 2019, 2018 and 2017 are as follows:

	Investment Properties <i>(see Note 2.25)</i>	Retirement Benefit Obligation <i>(see Notes 24.2 and 25)</i>	Financial Assets at FVOCI <i>(see Note 17.2)</i>	Total
Balance as of				
January 1, 2019	P 19,047,893	(P 46,751,853)	(P 820,375)	(P 28,524,335)
Remeasurements of post-employment defined benefit plan	-	27,514,967	-	27,514,967
Fair value gain on financial assets at FVOCI	-	-	1,120,238	1,120,238
Other comprehensive income before tax	-	27,514,967	1,120,238	28,635,205
Tax expense	-	(8,254,490)	-	(8,254,490)
Other comprehensive income after tax	-	19,260,477	1,120,238	20,380,715
Balance as of December 31, 2019	P 19,047,893	(P 27,491,376)	P 299,863	(P 8,143,620)
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 income	-	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)

	Investment Properties <small>(see Note 2.25)</small>	Retirement Benefit Obligation <small>(see Notes 24.2 and 25)</small>	Financial Assets at FVOCI <small>(see Note 17.2)</small>	Total
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)

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, 2019, 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.

28.3 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. The Group plans to declare dividends in 2020.

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.

In 2019, the Parent Company's BOD approved the declaration of cash dividends of P0.04 per share or equivalent to P120.0 million out of its unrestricted retained earnings as of December 31, 2018 to stockholders of record as of March 4, 2019. Such dividends were fully paid in the same year of declaration. In 2017, the Parent Company's BOD and stockholders declared P1,000.0 million stock dividends from the Parent Company's unrestricted retained earnings (see Note 31).

Also in 2019, BAHI's BOD approved the declaration of cash dividends of P200.00 per share to its stockholders of record as of October 31, 2019. Of the total cash dividends, P404.5 million is attributable and fully paid to other shareholders of BAHI in the same year of declaration.

28.4 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 previous years which amounted to P297.4 million and P21.4 million, respectively.

29. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

29.1 Operating Leases – Group as a Lessee (2018)

The Group is a lessee under non-cancellable operating lease agreement covering certain parcels of land. The lease has a remaining term of 15 years, with renewal options, and includes annual escalation rate of 3% every two years. The future minimum lease payments under these non-cancellable operating lease as of December 31, 2018 are as follows:

Within one year	P 10,764,618
After one year but not more than five years	46,367,978
More than five years	<u>137,514,995</u>
	<u>P 194,647,591</u>

The total rentals from these operating lease amounted to P5.4 million in 2018 which was charged to operating expense under Cost of Rentals account.

29.2 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. 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. Some 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.

The future minimum lease collections under these operating leases as of the end of the reporting periods are as follows:

	<u>2019</u>	<u>2018</u>
Within one year	P 1,188,416,411	P 1,051,641,523
After one year but not more than five years	3,656,184,342	3,965,602,534
More than five years	<u>32,319,145,099</u>	<u>32,173,993,819</u>
	<u>P 37,163,745,852</u>	<u>P 37,191,237,876</u>

The total rent income recognized on investment properties amounted to P1,772.5 million, P1,727.4 million and P1,349.1 million, including rent income resulting from the application of the straight-line basis of revenue recognition in accordance with PFRS 16 (previously PAS 17) amounting to P568.1 million, P716.8 million and P605.9 million in 2019, 2018 and 2017, respectively, and are presented as Land and Building Rentals under Revenues account in the consolidated statements of profit or loss.

Variable rent, which pertains to a certain percentage share in the lessees' revenues, is included as part of total rent income amounting to P28.6 million, P13.0 million and P13.1 million in 2019, 2018 and 2017, respectively.

29.3 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.

29.4 Deficiency Tax Assessments

The Group has certain final deficiency tax assessment and has received letters of authority from the 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, 2019, the final deficiency tax assessments are still under protest. Management believes that the Group has enough legal basis under the 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.

29.5 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 shown below.

	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, 2019:				
Gross valuation	P 3,025,260,857	P14,954,518,464	P -	P 17,979,779,321
Estimated liability for land development costs	(1,012,767,207)	(6,086,976,154)	-	(7,099,743,361)
Net amounts	<u>P 2,012,493,650</u>	<u>P 8,867,542,310</u>	<u>P -</u>	<u>P 10,880,035,960</u>
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	<u>P 2,162,209,345</u>	<u>P 8,720,243,460</u>	<u>P 127,062,953</u>	<u>P 11,009,515,758</u>

The movements in the estimated land development costs are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 7,398,607,928	P 7,606,419,672
Development costs incurred during the year	(298,864,567)	(207,811,744)
Balance at end of year	<u>P 7,099,743,361</u>	<u>P 7,398,607,928</u>

29.6 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, 2019, 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.

30. 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, 2019 and 2018, the Group's ratios of net interest-bearing loans to total capital are as follows:

	Notes	<u>2019</u>	<u>2018</u>
Total loans and borrowings	18	P 511,720,000	P 1,928,920,000
Less: Cash and cash equivalents and short-term placements	8, 12	<u>(7,271,402,211)</u>	<u>(8,949,219,648)</u>
Net loans and borrowings (a)		(6,759,682,211)	(7,020,299,648)
Total equity		<u>20,533,182,994</u>	<u>18,865,978,379</u>
Net loans and borrowings and equity (b)		<u>P13,773,500,783</u>	<u>P11,845,678,731</u>
Gearing ratio (a/b)		<u>-49%</u>	<u>-59%</u>

Certain loans with a local bank are subject to a cross default arrangement wherein if the Group fails to pay or default in the payments of any installment of the principal or interest, the Group's obligation will become due and demandable without the need for notice of demand for payment. Moreover, if the Group 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 to the lending bank and any of the lending bank's related parties will only become due and demandable upon notice of demand for payment.

With regard to the loans of the Group, it has complied with the financial, affirmative and negative covenants except that a subsidiary exceeded the required current ratio in its own financial statements. The Group has been up to date in servicing of the loans and has not received any written notice, as of the date of the issuance of the consolidated financial statements, that the loans are due and demandable, which is also as provided for in the loan covenants as a basis to reclassify the loan to current as discussed above. Moreover, the fair value of the properties used as collaterals exceed the carrying value of the Group's loans and borrowings.

The Group has no other significant loan covenants in 2019 and 2018 (see Note 18).

31. 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, 2019, 2018 and 2017:

- In 2019 and 2017, the Group reclassified certain parcels of land which were previously presented under Land and Land Development Costs to Investment Properties amounting to P231.6 million and P54.7 million, respectively (see Notes 11 and 15). There was no similar transaction in 2018.

- In 2019, total advances amounting to P64.6 million were assumed by the Group due to the consolidation of ABCC [see Notes 13.2(b) and 26.2]. There was no similar transaction in 2018 and 2017.
- In 2019, the Group reclassified certain parcels of land amounting to P397.8 million from investment properties to property development costs (see Notes 10.1 and 15). There was no similar transaction in 2018 and 2017.
- In 2019, the Group reclassified a portion of the investment properties amounting to P231.7 million to property and equipment representing the portion of a certain building held for administrative purposes (see Notes 14 and 15). There was no similar transaction in 2018 and 2017.
- In 2019, the Group reclassified Investment in Joint Venture Held for Termination to Land under Investment Properties amounting to P163.3 million [see Note 13.2(b)]. There was no similar transaction in 2018 and 2017.
- In 2019, the Company recognized right-of-use asset and lease liability both amounting to P163.8 million (see Note 16).
- In 2019, 2018 and 2017, the Group capitalized certain portion of depreciation of property and equipment amounting to P36.1 million, P14.6 million and P22.4 million, respectively, as part of land and land development costs [see Notes 2.5(a) and 14].
- 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). There was no similar transaction in 2019 and 2017.
- In 2018 and 2017, capitalized borrowing costs to investment properties amounted to P28.3 million and P16.3 million, respectively (see Notes 15 and 18). There was no similar transaction in 2019.
- In 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 28.3). There was no similar transaction in 2019 and 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 (see Note 15). The outstanding receivable from these transactions amounted to P226.1 million as of December 31, 2016, which was collected in full in 2017. There was no outstanding receivable from the 2017 transaction. There was no similar transaction in 2019 and 2018.
- 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 Note 15(b)]. There was no similar transaction in 2018 and 2019.

32. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION

R.A. No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code) took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Group's consolidated financial statements.

33. EVENT AFTER THE END OF THE REPORTING PERIOD

On February 19, 2020, the Parent Company's BOD approved the appropriation of a portion of the Parent Company's 2019 retained earnings in the amount of P2,400.0 million for the Parent Company's 2020 projects.

**Report of Independent Auditors
to Accompany Supplementary
Information Required by the
Securities and Exchange Commission
Filed Separately from the Basic
Consolidated Financial Statements**

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines
T +63 2 988 22 88

The Board of Directors and Stockholders
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 consolidated financial statements of D.M. Wenceslao & Associates, Incorporated and Subsidiaries (the Group) for the year ended December 31, 2019, on which we have rendered our report dated February 19, 2020. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: John Endel S. Mata
Partner

CPA Reg. No. 0121347
TIN 257-622-627
PTR No. 8116549, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 121347-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002551-040-2019 (until Dec. 15, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 19, 2020

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

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C	Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements	3
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	Map Showing the Relationship Between and Among the Company and its Related Entities	9

**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 Revised SRC Rule 68

Annex 68-J

Schedule A - Financial Assets

December 31, 2019

(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 AMORTIZED COST				
Cash and cash equivalents		P 5,211,402,211	P 5,211,402,211	P 263,751,190
Short-term placements		2,060,000,000	2,060,000,000	33,169,583
Receivables - net		5,276,558,087	5,276,558,087	-
Refundable deposits		<u>47,362,548</u>	<u>47,362,548</u>	<u>-</u>
		<u>12,595,322,846</u>	<u>12,595,322,846</u>	<u>296,920,773</u>
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Equity Securities				
Petron Corporation	7,500	P 7,702,500	P 7,732,500	P 173,190
Arthaland Corporation	350,000	35,215,000	35,245,000	1,296,814
Debt Security				
P1B Global Holdings PTE Ltd.	5,289,370	<u>5,289,370</u>	<u>5,289,370</u>	<u>-</u>
		<u>48,206,870</u>	<u>48,266,870</u>	<u>1,470,004</u>
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				
Equity Securities				
Powersource Philippine Distributed Power Holdings, Inc.	72,453,780	P 72,453,780	P 72,453,780	P -
Tagaytay Highland International Golf Club Inc.	1	1,125,000	700,000	-
Tagaytay Midland Golf Club	1	1,550,000	700,000	-
Quezon City Sport Club	1	292,000	750,000	-
Alphaland City Club	1	450,000	450,000	-
Philippine Long Distance Telephone Company	1	4,363	988	-
Philippine Construction Association	1	<u>1,000</u>	<u>1,000</u>	<u>-</u>
		<u>75,876,143</u>	<u>75,055,768</u>	<u>-</u>
GRAND TOTAL		<u>P 12,719,405,859</u>	<u>P 12,718,645,484</u>	<u>P 298,390,777</u>

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

December 31, 2019

(Amounts in Philippine Pesos)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Ending Balance		Balance at End of Period
			Amounts Collected/Offset	Amounts Written-off	Current	Not Current	
Amounts Receivable from Related Parties							
Wendel Holdings Co., Inc.	P 430,355,411	P 336,325,443	P 330,000,000	P -	P 436,680,854	P -	P 436,680,854
Wendel Vega Marine Carrier	96,542,199	795,536	89,880	-	97,247,855	-	97,247,855
Stockholders	74,993,907	9,009,168	-	-	84,003,075	-	84,003,075
Alphaland Bay City Corporation	51,068,314	1,135,771	52,204,085	-	-	-	-
Bay Resources and Development Corporation	44,999,065	-	-	-	44,999,065	-	44,999,065
Wendel Ground Improvement, Inc.	30,382,162	2,500	-	-	30,384,662	-	30,384,662
Urban Agro Products, Inc.	19,969,897	130,860	-	-	20,100,757	-	20,100,757
European Resources & Technologies, Inc.	7,150,428	202,400	-	-	7,352,828	-	7,352,828
Bay Security Services, Inc.	4,861,598	17,483	-	-	4,879,081	-	4,879,081
10k South Concrete Mix	4,827,265	-	-	-	4,827,265	-	4,827,265
Wendel Osaka Realty Corporation	1,640,612	17,483	-	-	1,658,095	-	1,658,095
Aseana Urban Art Foundation	1,227,143	-	-	-	1,227,143	-	1,227,143
Cagayan Economic Development	750,000	-	-	-	750,000	-	750,000
Wendel Construction Co., Inc.	646,105	28,212,433	28,858,538	-	-	-	-
Cagayan Valley Bio Energy	539,500	-	-	-	539,500	-	539,500
Patriot Log Home Asia, Inc.	27,816	17,483	-	-	45,299	-	45,299
Others	18,341,264	809,076	9,194,465	-	9,955,875	-	9,955,875
TOTAL	P 788,322,686	P 376,675,636	P 420,346,968	P -	P 744,651,354	P -	P 744,651,354

*Includes amounts extinguished as a result of assumption of liability by the Parent Company's stockholder.

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

December 31, 2019

(Amounts in Philippine Pesos)

Name and Designation of Debtor	Balance at Beginning of 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:

Aseana Holdings, Inc.	P 98,981,965	P 2,154,042	P 1,779,010	P -	P 99,356,996	P -	P 99,356,996
Bay Area Holdings, Inc.	101,581,885	-	5,006,609	-	96,575,276	-	96,575,276
Boracay International Airport & Dev't Corp.	48,618,101	102,400	-	-	48,720,501	-	48,720,501
Fabricom Realty Development Corporation	6,134,857	65,796	-	-	6,200,653	-	6,200,653
R-1 Consortium, Inc.	5,829,664	70,878	-	-	5,900,542	-	5,900,542
Portal Holdings, Inc.	210,000	2,422	-	-	212,422	-	212,422
Mandaue Land Consortium, Inc.	3,344,404	244,867	3,000,000	-	589,271	-	589,271
Aseana I.T. Plaza, Inc.	730,997	65,846	-	-	796,843	-	796,843
Aseana City Transport & Travel Corp.	6,577,625	8,831	1,075,000	-	5,511,456	-	5,511,456
SHLP BBP Realty, Inc.	203,054	2,400	-	-	205,454	-	205,454
Aseana Residential Holdings Corp.	-	281,910	-	-	281,910	-	281,910
Alphaland Bay City Corporation	-	52,204,085	-	-	52,204,085	-	52,204,085
	P 272,212,552	P 55,203,476	P 10,860,620	P -	P 316,555,408	P -	P 316,555,408

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule D - Long-term Debt

December 31, 2019

(Amounts in Philippine Pesos)

Title of Issue and Type of Obligation	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
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Bank of the Philippine Islands
Term loan

P 114,670,000 P 397,050,000

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule E - Indebtedness to Related Parties (Non-current Liabilities)

December 31, 2019

(Amounts in Philippine Pesos)

Name of Related Party	Balance at Beginning of Period	Balance at End of Period	Purpose
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Not Applicable

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule F - Guarantees of Securities of Other Issuers

December 31, 2019

(Amounts in Philippine 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 of securities of Other Issuers as at December 31, 2019.

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule G - Capital Stock

December 31, 2019

(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 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	578,881,302	680,428,018

D. M. WENCESLAO & ASSOCIATES, INCORPORATED
3rd Floor, Aseana Powerstation Building
Pres. Macapagal Avenue, Aseana Business Park, Parañaque City

Reconciliation of Retained Earnings Available for Dividend Declaration
As of December 31, 2019

Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year	P 4,935,797,686
Rent income based on Philippine Accounting Standard (PAS) 17, <i>Leases</i>	(2,865,409,690)
Deferred tax income from deferred tax assets	(186,440,477)
Revaluation increment on land	(<u>19,047,893</u>)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year (As Adjusted)	<u>1,864,899,626</u>
Net Profit Realized During the Year	
Net profit per audited financial statements	2,315,189,566
Non-actual/unrealized income	
Accrued rent income based on PFRS 16, Leases	(559,653,028)
Deferred tax income from deferred tax assets	(<u>26,674,844</u>)
	<u>1,728,861,694</u>
Other Transactions During the Year	
Cash dividends declared	(<u>119,999,650</u>)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	<u>P 3,473,761,669</u>

Report of Independent Auditors on Components of Financial Soundness Indicators

Punongbayan & Araullo

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

T +63 2 988 22 88

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 consolidated financial statements of D.M. Wenceslao & Associates, Incorporated and Subsidiaries (the Group) for the year ended December 31, 2019 and 2018, on which we have rendered our report dated February 19, 2020. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the two years in the period ended December 31, 2019 and no material exceptions were noted.

PUNONGBAYAN & ARAULLO



By: John Endel S. Mata
Partner

CPA Reg. No. 0121347
TIN 257-622-627
PTR No. 8116549, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 121347-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002551-040-2019 (until Dec. 15, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 19, 2020

D.M. WENCESLAO & ASSOCIATES, INCORPORATED AND SUBSIDIARIES
Supplemental Schedule of Financial Soundness Indicators
December 31, 2019 and 2018
(Amounts in Philippine Pesos)

Ratio	Formula	2019	2018	Ratio	
				2019	2018
Current Ratio	Total Current Assets	13,509,277,300	14,663,438,025	1.61	1.62
	Total Current Liabilities	8,400,854,268	9,048,640,933		
Acid test ratio	[Cash and Cash Equivalents + Receivables - net]	7,388,146,156	9,871,737,542	0.88	1.09
	Total Current Liabilities	8,400,854,268	9,048,640,933		
Debt Ratio	Total Liabilities	10,733,615,215	10,922,737,201	0.34	0.37
	Total Assets	31,266,798,209	29,788,715,580		
Debt-to-Equity Ratio	Total Loans and Borrowings	511,720,000	1,928,920,000	0.03	0.11
	Total Equity Attributable to Owners of Parent Company	19,986,736,113	18,197,464,904		
Assets-to-Equity Ratio	Total Assets	31,266,798,209	29,788,715,580	1.56	1.64
	Total Equity Attributable to Owners of Parent Company	19,986,736,113	18,197,464,904		
Interest rate coverage ratio	Earnings Before Interest and Taxes	3,128,390,639	2,578,643,738	41.59	27.77
	Interest Costs*	75,214,506	92,858,995		
Return on equity	Net profit	2,251,970,516	1,920,796,338	0.12	0.14
	Average Equity Attributable to Owners of the Parent Company	19,092,100,508	13,428,725,385		
Return on assets	Net Profit	2,251,970,516	1,920,796,338	0.07	0.08
	Average Total Assets	30,527,756,895	25,081,275,740		
Net profit margin	Net Profit	2,251,970,516	1,920,796,338	0.64	0.89
	Total Revenues	3,513,391,951	2,152,326,536		
Other ratios:					
Debt Ratio	Total Loans and Borrowings	511,720,000	1,928,920,000	0.02	0.06
	Total Assets	31,266,798,209	29,788,715,580		
Gross Profit Margin	Gross Profit	2,819,084,125	1,805,540,716	0.80	0.84
	Revenues	3,513,391,951	2,152,326,536		
Solvency Ratio	Earnings Before Interest and Taxes	3,128,390,639	2,578,643,738	0.29	0.24
	Total Liabilities	10,733,615,215	10,922,737,201		

* Interest expense for bank loans plus capitalized borrowing costs.