SEC NO. 112978

SEC Registration No.

PHILIPPINE ESTATES CORPORATION

(Company's Full Name)

35TH FLR ONE CORPORATE CENTER

JULIA VARGAS COR. MERALCO AVE.

ORTIGAS CENTER, PASIG CITY

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

JOCELYN A. VALLE	637-3112
Contact Person	Contact Telephone No.

12 31	SEC-17A	
	FORM TYPE	Annual Meeting

Secondary License Type, If Applicable

CFD	
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

706	113,197,495	
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

MSEC Number 112978
File Number ______

PHILIPPINE ESTATES CORPORATION

(Company's Full Name)

35th Floor One Corporate Center, Julia Vargas Avenue cor. Meralco Avenue
Ortigas Center, Pasig City

(Company's Address)

637-3112

(Telephone Number)

December 31

(Fiscal Year Ending)
(month & day)

SEC FORM 17-A
(Form Type)

Amended Designation (if applicable)

2018

Period Ended Date

(Secondary Licensed Type and File Number

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

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

2. SEC Identification Number 112978 3. BIR Tax Identification No. 000-263-366

3. PHILIPPINE ESTATES CORPORATION

4. METRO MANILA, PHILIPPINES 6. ☐ (SEC Use Only)
Industry Classification Code:

7. 35th Floor, One Corporate Center, Julia Vargas Avenue cor. Meralco Avenue
Ortigas Center, Pasig City 1600

8. Telephone No. 637-3112 Area Code: 02

9. Securities registered:

5,000,000,000 Common Shares with par value of P1.00/share

No. of shares of Common Stock Issued and Outstanding:

1,445,549,830 common shares

Amount of Debt Outstanding:

₱ 113,197,495 (as per Financial Statements)

10. All of these securities which are all common shares are listed on the Philippine Stock Exchange.

11. The Corporation has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months and has been subject to such filing requirements for the past 90 days.

12. The aggregate market value of the voting stock held by non-affiliates of the Company is as follows:

Number of Shares	P 759,980,740
Market price as of 12/31/18	0.47
	P 357,190,948
	===========

PART 1 – BUSINESS

A. Description of Business:

(1) Business Development

The Company was incorporated on May 30, 1983 as "Philippine Cocoa Estates Corporation" under Securities and Exchange Commission (SEC) Registration No. 112978, with an authorized capital stock of only P1 million. Its primary purpose was to engage in all phases of agriculture. On February 29, 1984 its authorized capital stock was increased to P140 million. In November of that same year, the Company became a publicly listed company.

In 1987, the SEC approved two increases in the authorized capital stock of the Company: the first one on May 8 raising the capital to P180 million; and the second one on October 22, raising it further to P300 million.

In 1996, The Wellex Group, Inc. gained majority control of the Company and revamped its management. The new management opted for a change in business focus from agriculture to real estate, with the corporate vision of becoming a world-class real estate developer.

To align the Company to this new corporate vision, management applied with the SEC for approval to carry out certain strategic corporate changes. Thus, on May 16, 1996, the SEC approved the proposed changes, namely: (a) the change in the primary purpose clause from agriculture to the business of holding and developing real estate; (b) the change in the corporate name to reflect the new business focus; (c) the removal of the Class "A" and Class "B" classification of the Company's shares; and (d) the change in the par value of the shares from P10.00 to P1.00 per share.

Towards achieving its corporate vision, the Company filed an application to increase its authorized capital stock from P300 Million to P5 Billion. Out of this increase of P4.7 Billion, the amount of P1,194,333,800.00 was subscribed and paid up by five corporate investors. The principal part of the subscription was paid up by way of transfers to the Company of 45 parcels of land valued at P1,161,833,800.00, while a smaller portion of the subscription, amounting to P32,500,000.00 was paid through conversion of debt into equity. The increase in authorized capital stock was approved by SEC on March 26, 1997.

(2) Business of Issuer

With the acquisition of real properties by virtue of its agreement with Rexlon Realty Group, Inc., Recovery Real Estate Corporation, Ropeman International Corporation, The Wellex Group, Inc. and Pacific Rehouse Corporation, the Company conducted a study to determine the "highest and best use" of its real estate holdings for the purpose of enhancing their value and maximizing the returns to the stockholders.

The following are the projects of the Company:

Completed Projects:

1. ***Pearl of the Orient Tower****.*

   A 42-storey office-residential-recreational condominium tower in Roxas Boulevard, Manila.

   (No revenue for 2018)

2. ***Metrotech Industrial Park Valenzuela (formerly; Plastic City Industrial Park).***

   A 30-hectare, modern industrial park in the booming city of Valenzuela.

   Revenue for 2018 : P 22,552,678.57 7.35%

3. ***Pacific Grand Villas Phase 1.***

   The first phase of the successful Mediterranean-inspired residential community in the highly urbanized city of Lapu-lapu, Cebu.

   (No revenue for 2018)

4. ***Pacific Grand Villas Phase II.***

   The second completed project in Lapu-lapu City, Cebu, with bigger lot cuts than Phase 1 and new house models.

   Revenue for 2018 : P 6,147,000.00 2.00%

5. ***Pacific Grand Villas Phase III.***

   The third in the series of thriving Pacific Grand Villas communities in Lapu-lapu City, Cebu.

   Revenue for 2018 : P 15,483,428.57 5.04%

6. ***Chateaux Geneva.***

   A 10-hectare Swiss-Victorian themed community in the prime district of Jaro, Iloilo City.

   Revenue for 2018 : P 2,748,400.00 0.90%

ONGOING / CURRENT PROJECTS:

1. ***Pacific Grand Villas Phase IV.***

   Phase 4 of Pacific Grand Villas features some 356 prime residential lot units. In this project we introduced at least four more new house models to satisfy the evolving demands of the market. This project caters also to an international blend of buyers, just like the earlier phases, making Pacific Grand Villas an international community that meets global standards and lifestyle.

Revenue for 2018: ₱ 42,339,734.55   13.80%

2. ***Pacific Grand Townhomes Phase 1.***

   The Pacific Grand Townhomes is a middle-class Victorian-themed townhouse project located in Lapu-Lapu City. It boasts of the exclusivity of a pocket community, consisting of 43 units of elegantly designed houses.

   This stylish community is proximate to private and public institutions, recreational areas, schools, resorts, business and trade centers.

Revenue for 2018: ₱ 43,036,545.71   14.02%

3. ***Costa Smeralda.***

   The second of our exclusive residential communities in Iloilo City, Costa Smeralda is themed after the famed Italian coastal resorts. Offering 395 lot-units, we introduced in this village four trendy yet sophisticated house designs of varying floor areas, blending form and function to perfectly suit the requirements of discriminating buyers.

Revenue for 2018: ₱ 104,759,967.09   34.13%

4. ***Joint Project with Amaia Land (an Ayala Land company) for a residential subdivision in Cavite.***

   The company has entered into a memorandum of agreement with Amaia Land (an Ayala Land Company) for the development of its 16-hectare property in General Trias, Cavite into a residential subdivision. The property is now being developed as part of the AmaiaScapes residential project, offering affordable house-and-lot packages.

(No revenue for 2018)

5. ***Wellford Homes – Jaro***

This project is our third residential community in Iloilo City. The house-and lot packages are mainly designed for homebuyers inclined for economy, maximizing value-for- money. Consisting of about 10 hectares, the initial offering is an American inspired two bungalow-type house model.. These single-level houses are very much suited also for senior citizens and retirees. The project was launched in November 2016, with the land development and house construction well underway.

Revenue for 2018: ₱ 69,844,650.00   22.76%

PROJECTS IN THE PIPELINE

1. ***Wellford Homes - Malolos***

Wellford Homes is a residential development with an area of approximately 6.8 hectares located in Barangay Longos, Malolos City, Bulacan. This horizontal development is American inspired. Housing design reflects the suburban feel with landscaping elements that reflect the American ambiance by utilizing pine trees. The subdivision is designed to provide generous areas for roads and open spaces, which accounts for nearly 35% of the total developable area. Based on the projections, the development will generate Php 1.1 Billion gross revenue upon completion of the project.

2. ***Wellford Homes Phase 3 (Parcel B)***

In line with its aim of expanding the existing American-inspired subdivision project located at Jaro, Iloilo City, will soon to launch its expansion which cater 326 saleable units. This property expansion covers an area of around nine (9) hectares, and shall deliver Lot and Two-Storey House-and-Lot packages having floor areas of 63 sq.m, 73 sq.m and 93 sq.m. The said expansion is expected to generate a projected Gross Revenue approximately Php 583 Million upon completion.

3. ***Wellford Residences – Mactan***

As the Company's answer to the housing backlog in the economic sector, PHES is set to launch Wellford Residences – Mactan, a two-tower medium rise condominium project in one of its prime and highly accessible properties in Mactan, Cebu.

Located along Bgy. Suba-Basbas in the City of LapuLapu, the project will offer around 200 condo units and 37 parking units and is expected to generate for the Company approximately ₱540Million in Revenue.

4. ***Pacific Grand Villas Phase 5***

A follow-up to the highly successful Pacific Grand Villas series, Phase 5 is an expansion of the Mediterranean themed village in Lapu-lapu City Mactan, Cebu. The masterplanned community shall have bigger houses and lot cuts. Situated in the main entrance avenue by the commercial area, prime sections of this phase offer shop houses or specially-designed home-buildings, the ground floors of which are devoted to village commercial enterprises like salons, boutiques, clinics, spa, convenience stores, and the like. These units will be sold together with a luxurious housing component in this low density phase. We are deferring the development of the project until further evaluation is completed.

FUTURE PROJECTS

1. ***Jaro Grand Estates – South.***

   Commercial-Institutional / Mixed-use estate strategically located just 3.3 kilometers away from Jaro Plaza, the Jaro Grand Estates (**JGE**)`is a 100-hectare master-planned community near Iloilo City's major hubs including colleges and universities, commercial and business areas, hospitals and government centers, air and sea ports. It integrates several land uses into a singular development. JGE is divided into 2 major enclaves: the JGE North, comprising of at least five themed residential villages, and the JGE-South that is planned for commercial mixed-use developments.

   When completed, the 40-hectare JGE-South is envisioned to feature its own commercial and restaurant strips, office and business centers, education area, and a hotel and tourist district.

2. ***Residential Projects in Luzon – Cavite, Bulacan, and other Luzon Growth Areas.***

Philippine Estates Corporation continues to pursue project prospects in select locations in CALABARZON to the South, and Bulacan, Pampanga and Tarlac to the North.

3. ***Mixed-use development ventures in Metro Manila and Cebu.***

   Philippine Estates Corporation has been eyeing to engage in commercial real estate development as a natural offshoot of its experience and expertise in developing a variety of projects in different market categories. The Company has already been into horizontal subdivision, high-rise condominium and industrial park developments.

   The Company is seriously considering the very lucrative potential of at least three select sites in Metro Manila - Ortigas, Malate, and Quezon City – and another site in Cebu. The plan is to build high-rise residential and office-commercial towers, with shopping, entertainment, and health-and-leisure components.

   The Company is also conducting earnest feasibility studies of going into mixed-use developments that may include residential, commercial and office components and mid-rise structures in Metro Manila.

4. ***Condominium and upscale housing with commercial component, 21 hectares in Valenzuela.***

   Philippine Estates Corporation has teamed up with several other corporate landowners for a proposed development with Avida Land Corporation (a wholly-owned subsidiary of Ayala Land) of the prime estate in Valenzuela City, into a project that includes condominiums, upscale housing, and commercial components.

Competition:

The Company expects to compete with the biggest real estate developers all over the country. By strategically positioning itself in fast growing markets where land is still plenty and relatively less expensive, and by adhering to innovativeness and high standards of design and construction, the Company anticipates its projects to set the trend in property building. The Company has institutionalized its property management system and after-sales service to ensure that its developments will remain highly valued long after their turnover to buyers.

For its residential projects, the registrant targets the lower middle to middle-income families composed mostly of professionals and overseas Filipino workers.

Competitive business conditions and the registrant's competitive position in the industry and methods of competition.

Banks are more aggressive now in extending working capital to developers and financing to buyers. The government too is very visible in promoting its programs to answer the backlog in housing.

In the light of these, and the resilience of Filipinos to internal and external changes, the overall outlook on the Philippine economy as it relates to the real estate industry is optimistic. There has been a big positive shift from the former 'wait-and-see' attitude in property investments. Indeed, there has been more new projects being offered in the market signifying renewed confidence of buyers and investors.

The Company is continually putting on stream various projects for implementation to take advantage of the continuing bullish outlook in the economy and the real estate industry.

The Company's projects are located not just in one area, but in several developed areas all over the country, thereby enhancing its market base.

The real estate industry remains to be growing, both for the local market and those targeting Filipinos overseas, whether OFW's or those who have relatives who are citizens abroad, or who happen to be married to foreigners. For the local market, there remains a real demand for millions and millions of houses that remain unserved. There is a trend towards providing more affordable packages in order to meet the real need of a wider market base, other than targeting the high-end market which, although the market remains, has become more cautious, and has much less sales velocity and demands bigger upfront capital input. Currently we cater more to the middle-income residential market. Competition in pricing has become stiff. We introduced more affordable house-and-lot packages whose prices and terms are easier for the wider market. Currently, our projects are mainly in Lapu-lapu City, Cebu, and in Iloilo City. The Company sees itself primarily as a developer of prime properties, not only in Metro Manila, but also in urban areas outside the capital, like Cebu and Iloilo. The registrant also plans to extend operations in rapidly growing areas in the south and across the countryside as well. The Company believes there remains a large untapped market in these locations offering tremendous opportunities for high-value properties. These areas also offer less competitors and relatively less expensive land component.

In Lapu-lapu City, Cebu, our current major competitors and their projects are as follows: CEBU DEVELOPERS - (1) Primary Homes, Inc. - - Projects: Brookefield, and Collinwood; and (2) MSY Holdings - - Bayswater ; NATIONAL DEVELOPERS - (1) Filinvest - - Project: Aldea del Sol; (2) Camella Homes/Villar Group - - Project: Montserrat. The Cebu developers have the benefit of being familiar locally. Primary Homes is the sister company of Primary Structures which is an established construction company in Cebu and possibly the biggest construction company in Central and Southern Philippines. MSY Holdings, established in 2003 by Mariquita Salimbangon-Yeung, is a conglomerate engaged in landholdings and farming, memorial park development, resort and hotel development, and residential real estate. Filinvest and Camella/Villar Group are known developers in various market segments and categories all over the country.

In Iloilo City, our current major competitors and their projects are as follows: (1) Property Company of Friends, Inc. or ProFriends - - Montecillo Villas; (2) Crown Asia/Villar Group - - Savannah. ProFriends is an active developer with hundreds of hectares of completed and ongoing projects in Luzon. Crown Asia/Villar Group is a known developer in various segments and categories all over the country.

Despite the increasing competition, we are competitive because we are able to continuously offer innovative designs and packaging, including terms of payment to buyers, and incentives to our sellers/brokers. Very significantly, our projects have been known to be of good quality, for which we have been recognized and given an award as Leading Developer in Region 7 for Open Market Housing.

Sources and availability of raw materials:

The Company's construction of real estate projects are done through contractors. Contract packages are outsourced under competitive bidding, and we select contractors with proven experience, and the ones who can give us the best value for money. Part of our construction agreements with them is the detailing of the bill of materials that will be used for the projects, ensuring the desired quality. All materials and suppliers are readily available in the places where we have projects. There are no suppliers or contractors upon which we are dependent on.

Transactions with and/or dependence on related parties:

The Group makes advances to and from related parties for working capital requirements and for those related to joint venture agreements and other transactions.

Details of the Group's advances to related parties for the years ended December 31, 2018 and 2017 are as follows:

December 31, 2018	At beginning of year	Additional advances/ Impairment	Accrual of interest	Collection/ application/ reversal of impairment	At end of year
Common key management					
Plastic City Corp. *(a)*	**₱ 183,932,797**	**₱ 500,000**	**₱ 3,675,235**	**(₱ 2,552,326)**	**₱ 185,555,706**
Forum Holdings Corp. *(b)*	**75,602,659**	**–**	**1,445,159**	**(40,136,436)**	**36,911,382**
Kennex Container Corp. *(b)*	**33,812,552**	**700,000**	**676,251**	**(700,000)**	**34,488,803**
Orient Pacific Corp. *(b)*	**32,710,684**	–	**472,379**		**33,183,063**
Heritage Pacific Corp. *(b)*	**19,767,564**	–	**–**	**(19,767,564)**	**–**
Noble Arch Realty and Construction *(c)*	**4,396,408**	**447,961**	**87,092**	**(274,036)**	**4,657,425**
Pacific Rehouse Corporation	–	**587,064**	–	–	**587,064**
Stockholders					
International Polymer Corp. *(b)(f)*	**6,755,831**	**1,057,250**	**127,499**	**(6,377,672)**	**1,562,908**
	356,978,495	**3,292,275**	**6,483,615**	**(69,808,034)**	**296,946,351**
Allowance for impairment	**42,333,672**	**570,846**	–	**(15,898,059)**	**27,006,459**
	₱ 314,644,823	**₱2,721,429**	**₱ 6,483,615**	**(₱53,909,975)**	**₱ 269,939,892**

December 31, 2017	At beginning of Year	Additional advances/ Impairment	Accrual of interest	Collection/ application/ reversal of impairment	At end of year
Common key management					
Plastic City Corp. *(a)*	₱ 180,462,367	₱ –	₱ 3,470,430	₱ –	₱ 183,932,797
Forum Holdings Corp. *(b)*	74,176,194	–	1,426,465	–	75,602,659
Kennex Container Corp. *(b)*	33,258,636	–	553,916	–	33,812,552
Orient Pacific Corp. *(b)*	32,265,044	–	445,640	–	32,710,684
Heritage Pacific Corp. *(b)*	19,394,591	–	372,973	–	19,767,564
Noble Arch Realty and Construction *(c)*	3,979,197	56,083	361,128	–	4,396,408
Bataan Polytethylene Corp.	183,232	–	–	(183,232)	–
The Wellex Group, Inc. *(e)*	22,665,360	34,802,370	335,472	(57,803,202)	–
Stockholders					
International Polymer Corp. *(b)(f)*	1,190,302	5,563,601	1,928	–	6,755,831
	367,574,923	40,422,054	6,967,952	(57,986,434)	356,978,495
Allowance for impairment	41,150,533	–	–	(153,468)	40,997,065
	₱ 326,424,390	₱ 40,422,054	₱ 6,967,952	(₱ 57,832,966)	₱ 315,981,430

Movements in the allowance for ECL are as follow:

	2018	2017
Balance at beginning of year, as previously reported	**₱ 40,997,065**	₱ 40,997,065
Effect on adoption of PFRS 9	**1,336,607**	–
Balance at beginning of year, as restated	**42,333,672**	40,997,065
Recovery during the year – note 20	**(15,327,213)**	–
	₱ 27,006,459	₱ 40,997,065

Details of the Group's advances from related parties as at December 31, 2018 and 2017 are as follows:

December 31, 2018	**At beginning of Year**	**Additional Advances from Related Parties**	**Settlement/ Reversal**	**At end of Year**
Common key management				
Waterfront Cebu City Hotel	**₱ 92,054,457**	**₱ –**	**₱ –**	**₱ 92,054,457**
Pacific Rehouse Corp.	**27,697,278**	**–**	**(27,697,278)**	**–**
Concept Moulding Corp.	**3,830,646**	**–**	**–**	**3,830,646**
Manila Pavilion	**166,530**	**–**	**–**	**166,530**
The Wellex Group, Inc.	**32,092,370**	**4,986,402**	**(30,661,818)**	**6,416,954**
	₱155,841,281	**₱ 4,986,402**	**(₱58,359,096)**	**₱102,468,587**

December 31, 2017	At beginning of Year	Additional advances from related parties	Settlement/ Reversal	At end of Year
Common key management				
Waterfront Cebu City Hotel	₱ 92,054,457	₱ –	₱ –	₱ 92,054,457
Pacific Rehouse Corp.	27,704,628	–	(7,350)	27,697,278
Concept Moulding Corp.	3,830,646	–	–	3,830,646
Manila Pavilion	166,530	–	–	166,530
The Wellex Group, Inc.	–	32,092,370	–	32,092,370
	₱123,756,261	₱ 32,092,370	(₱ 7,350)	₱155,841,281

a) Plastic City Corporation (PCC)

Advances to PCC represent interest bearing cash advances which bears an interest of 2% per annum. In 2009, PCC committed to pay by way of transfer of eleven (11) properties located at Metrotech Industrial Park with a total area of 21,475 sq.m. valued at ₱6,450/sq.m. The transfer, however, did not materialize in 2009 because of an impending "Lis pendens" case that was resolved with finality only on March 26, 2010. Subject properties were purchased by PCC from the Philippine National Bank (foreclosed properties) which were subject of the abovementioned case filed by Quisumbing et, al. The Supreme Court issued its final decision, in favor of PNB.

On May 2, 2011, PCC and the Group re-entered into a memorandum of agreement wherein PCC will transfer the ownership of the said properties as payment to its outstanding obligation to the Group. On December 21, 2018, PCC and Parent Company reissue a promissory note indicating an extension of term for another three (3) years, starting January 31, 2018 and will mature on January 31, 2021. As at December 31, 2018 and 2017, the outstanding advances to PCC has not been settled, the transfer of property from PNB to PCC is still pending.

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b) Forum Holdings Corp. (FHC), International Polymer Corporation (IPC), Kennex Container Corp. (KCC), Orient Pacific Corporation (OPC), and Heritage Pacific Corporation (HPC)

In 2009, FHC, IPC, KCC, OPC and HPC executed respective unsecured promissory notes (PN) to cover their respective advances with a term of five (5) years, and bear interest of three percent (3%) per annum, renewable upon agreement of the parties. These PNs were renewed in 2014 with a three-year term which matured during the year at interest of two percent (2%) per annum. These cash advances are to be settled through cash payments. On December 21, 2018, FHC, KCC and OPC, and Parent Company reissued a promissory note indicating an extension of term for another three (3) years, starting January 31, 2018 and will mature on January 31, 2021.

c) Noble Arch Realty and Construction Corporation (NARCC)

In 2005, NARCC entered into a Contract to Sell with Union Bank of the Philippines involving eight (8) parcels of land located in Valenzuela City, with an aggregate area of 15,997 square meters.

For the purpose of paying the obligation arising from the abovementioned contract, NARCC sought the assistance of the Group through subsequent interest bearing cash advances.

On March 23, 2015, the properties were transferred to the Group through Deed of Absolute Sale executed by the Group and Union Bank of the Philippines.

In 2009, NARC executed respective unsecured PN to cover their respective advances to the Group with a term of five (5) years, and bear interest of three percent (2%) per annum, renewable upon agreement of the parties. These PN was renewed in 2014 with a three-year term which matured during the year at interest of two percent (2%) per annum. These cash advances are to be settled through cash payments. On December 21, 2018, NARC and Parent Company reissued a promissory note indicating an extension of term for another three (3) years, starting January 31, 2018 and will mature on January 31, 2021.

d) Installment Contract Receivables from TWGI and IPC

In addition to the advances made to related parties, the Group also has installment contracts unsecured, unguaranteed from related parties due beyond one (1) year as follows which are to be settled through cash (see Note 5):

	2018	2017
International Polymer Corporation	**₱ 4,340,519**	₱ 4,340,519
The Wellex Group, Inc.	**–**	27,552,410
	₱ 4,340,519	₱ 31,892,929

On February 26, 2018, the Group collected the outstanding receivable amounting to ₱27,552,410 from TWGI.

e) Remuneration of Key Management Personnel

Key management is defined as those with position of assistant manager and above who are involved in the decision making policy of the Group. The total remuneration of these personnel is as follows:

	2018	2017	2016
Short-term employee benefits	**₱ 3,817,138**	₱ 4,779,020	₱ 4,799,460
Post-employment benefits	**318,095**	396,577	436,315
Share-based payments	**–**	–	–
Other long-term benefits	**–**	–	–
	₱ 4,135,233	₱ 5,175,597	₱ 5,235,775

Total number of employees:

Currently, the Company has a total of eighty (80) employees.

	Cebu	**Davao**	**HO**	**Iloilo**	**Grand Total**
Admin	12	1	31	13	57
Marketing	2		3	3	8
Operations	2		14	2	18
Grand Total	**16**	**1**	**48**	**18**	**83**

None of them is subject to any collective bargaining agreement.

The Company has a funded, noncontributory tax-qualified defined benefit type of pension plan covering substantially all of its employees. The benefits are generally based on defined contribution formula with minimum lump-sum guarantee of 100% of the latest monthly salary per year of service.

Principal terms and expiration dates of all patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held:

The Company does not hold any patent, trademark, copyright, franchise, concession, or royalty agreement. Our project names, i.e. subdivision names, are submitted to, and approved by the Housing and Land Use Regulatory Board (HLURB) which limits the use of project names on a first come-first served basis. The project names serve as the marks or labels of our products (real estate projects), but as of now they are not materially significant yet to merit special accounting valuation or accounting claim as asset for disclosure purposes.

Effect of existing or probable governmental regulations on the business:

The Company seeks to comply with all governmental requirements concerning its business. Lengthy processing period in the issuance of permits and clearances poses a detriment in terms of marketing and selling the Company's projects.

All projects of the Company are approved and duly covered by pertinent permits.

Cost and effect of compliance with environmental laws:

The Company's development plans provide for full compliance with environmental safety and protection in accordance with law. The Company provides the necessary sewage systems and ecological enhancements such as open space landscaping with greenery.

Need for any governmental approval of principal products and services.:

The Company secures the necessary permits and licenses from various government agencies for the development and selling of its projects. Among such permits are the Environmental Compliance Certificate (ECC) from DENR, Development Permit from local government unit, and License to Sell (LTS) from the Housing and Land Use Regulatory Board.

Item 2. Properties

The Company has the following real estate properties:

PROJECT/ PROPERTY	*LOCATION*	*AREA*	*REMARKS*
Pacific Grand Villas 1	Mactan Island Cebu	10.2 has (531 lots)	Completed
Pacific Grand Villas 2	Mactan Island Cebu	8.70 has (261 lots)	Completed
Pacific Grand	Mactan Island	8.40 has	Completed

Villas 3	Cebu		
Pacific Grand Villas 4	Mactan Island Cebu	6.70 has	
4A			95.11% Complete
4B			99.14% Complete
Pacific Grand Townhomes	Mactan Island Cebu	7,359 sqm.	69.52% Complete
MetroTech Industrial Park (formerly Plastic City Industrial Park)	Valenzuela City	30 has (110 lots)	Completed
Chateaux Geneva (JV w/ PRC)	Jaro, Iloilo City	10 has (421 lots)	Completed
Pearl of the Orient Tower (formerly Embassy Pointe Tower) (JV w/ Pearl of the Orient Realty & Devt. Corp.)	Roxas Blvd.	7,600 sqm. (91 units)	Completed
Costa Smeralda (Coastal Villas)	Jaro, Iloilo	8.9 has	88.70% Complete Model units constructed
Wellford Homes Jaro		10 has (106 units)	40.00% Completed

Facilities owned by the Company are generally in good condition.

The Company secured a credit line/loan from Luzon Development Bank in the amount of Pesos Thirty Five Million (P35,000,000.00) in 2012, additional ₱35 million in 2015 and another ₱35 million during 2017, obtained for working capital requirements. The notes carry interest rate of 10% p.a. and payable in 6 years, with interest payable monthly in advance. The loan is secured with real estate properties.

Item 3. Legal Proceedings

a) Claims from expropriated property in Chateaux Geneva

In 2006, portions of Chateaux Geneva were involved in an expropriation cased filed by the government versus the Parent Company and Pacific Rehouse Corporation (PRC) for the Iloilo Flood Control Project of the Department of Public Works and Highways (DPWH).
In 2006, the court, ordered DPWH to pay an initial deposit of ₱188,313,599, based on zonal value of ₱1,800 per square meter for the area covered by the initial expropriation petition of DPWH totaling 84,925 square meters of land that was directly traversed by the Floodway plus the provisional value of improvements and/or structures amounting to ₱35,448,599. In December of the same year, the Parent Company received from DPWH the initial amount of ₱127,867,244. Immediately thereafter, on January 2007, the amount of ₱60,446,355 was also directly deposited to the bank as agreed by the parties, for a total of ₱188,313,599.

In 2007, the Parent Company remitted to PRC the amount of ₱107,368,053 as its share in the initial deposit of DPWH. In December 2007, the government filed a second expropriation case involving properties of the Parent Company and PRC adjacent to the lands covered in the first expropriation case. These properties were also affected by the same Iloilo Flood Control Project, which DPWH failed to include in the first expropriation case. For this second expropriation, there was a second (2^{nd}) portion of payment amounting to ₱11,987,520 of which ₱5,405,775 of the said amount was remitted to PRC in January 2008.

The case is under protest by the Parent Company and pending court decision. The Parent Company and PRC claimed just compensation amounting to ₱2,598,661,688 for the total land area that was expropriated, the existing improvements thereon, the affected areas for redesigning and restructuring, the professional and technical services and the necessary provisions for damages.

On December 18, 2017, the Special Nineteenth (19th) Division of the Court of Appeals Visayas issued a decision holding that the respective appeals of plaintiff-appellant Republic of the Philippines and defendants-appellants Pacific Rehouse Corporation and Philippine Estates Corporation were denied. The November 13, 2012 Decision of the Regional Trial Court, Sixth (6th) Judicial Region, branch 24, Iloilo City, in Civil Case no. 06-29100, and its May 22, 2013 Order are affirmed with modification in the amount of just compensation, which shall earn a legal interest at the rate of 12% per annum from the time of the subject properties taking until June 20, 2013 and, thereafter, or from July 1, 2013 until full payment thereof, the legal rate shall be 6% per annum.

The expropriation cases for the determination of just compensation are still ongoing as at December 31, 2018.

b) Other lawsuits and claims

The Parent Company is contingently liable for existing lawsuits and claims from third parties, arising from the ordinary course of business. Management believes that the ultimate liability for the abovementioned lawsuits and claims, if any, would not be material in relation to the financial position and operating results of the Parent Company.

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

During the Annual Stockholders' Meeting held on October 26, 2018, the following matters formed part of the Agenda and were submitted to the vote of, and were subsequently approved by a unanimous vote of the stockholders owning 65% of the shares issued and outstanding:

a. Call to Order.
b. Certification of Notice and Quorum.
c. Approval of Minutes of the Previous Stockholders' Meeting.
d. Report to the Stockholders for the Year 2017.
e. Ratifications of the Acts of the Board and Management.
f. Election of Directors for 2018-2019.
g. Appointment of External Auditor.
h. Appointment of External Counsel
i. Other matters.
j. Adjournment.

(a) Elected members of the Board of Directors:

NAMES	AGE	CITIZENSHIP
KENNETH T. GATCHALIAN	41	FILIPINO
ELVIRA A. TING	57	FILIPINO
DEE HUA T. GATCHALIAN	69	FILIPINO
JOAQUIN P. OBIETA	84	FILIPINO
ARTHUR R. PONSARAN	75	FILIPINO
ARTHUR M. LOPEZ	71	FILIPINO
RENATO B. MAGADIA	80	FILIPINO
BYONG YOO SUH*	61	KOREAN
SERGIO R. ORTIZ-LUIS, JR*	76	FILIPINO
JAMES B. PALIT-ANG	54	FILIPINO
RICHARD L. RICARDO	55	FILIPINO

**** Independent Directors***

(b) Elected External Auditor: Diaz Murillo Dalupan & Company

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS:

Some of the directors and executive officers were involved in certain proceedings specifically: Lily Y. Part vs Elvira A. Ting, Arthur R. Ponsaran, Joaquin P. Obieta, Lisandro Abadia, Yolanda T. dela Cruz, Dee Hua T. Gatchalian, Kenneth T. Gatchalian, Arthur M. Lopez, Renato B. Magadia, James B. Palit-Ang and May Castillo, for violation of P.D. 957 and Syndicated Estafa. The same is pending with the Office of the City Prosecution of Iloilo City, and was consequently dismissed by the same office for lack of merit. The complainant in the same case elevated the matter to the Department of Justice on Petition for review.

The parties have already entered into a compromise agreement, and consequently complainant recently filed a Motion to Dismiss the case with her attached Affidavit of Desistance. Currently awaiting for the Department of Justice to act on the Motion to Dismiss/Withdrawal in view of the compromise agreement and Affidavit of Desistance.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

1. Market Information

- The shares of the Company are traded at the Philippine Stock Exchange.

  The high and low sale prices for each quarter within the last two (2) fiscal years are as follows:

	2018		**2017**	
	High	*Low*	*High*	*Low*
Q1	0.48	0.30	0.38	0.26
Q2	0.49	0.39	0.41	0.29
Q3	0.55	0.42	0.62	0.30
Q4	0.48	0.41	0.48	0.35

- ***The share price as of December 31, 2018 was P0.47.***

2. Holders

The number of holders of common shares as of December 31, 2018 was 706.

Names of the Top Twenty (20) shareholders as of December 31, 2018, the number of shares held, and the percentage of total shares outstanding held by each.

Rank	**Stockholder's Name**	**No. of Shares Held**	**% of Ownership**
1	PCD NOMINEE CORPORATION (Filipino)	704,162,350	48.712
2	REXLON REALTY GROUP, INC.	200,000,000	13.836
3	ROPEMAN INTERNATIONAL CORP.	178,270,000	12.332
4	RECOVERY REAL ESTATE CORP.	150,000,000	10.377
5	THE WELLEX GROUP, INC.	143,892,990	9.954
6	PCD NOMINEE CORPORATION (Non-Filipino)	55,223,010	3.820
7	RECOVERY DEVELOPMENT CORP.	3,000,900	0.208
8	VICENTE C. CO	1,575,000	0.109
9	RICHARD L. RICARDO	1,230,000	0.085
10	RENATO B. MAGADIA	1,000,000	0.069
11	ANTHONY SAMUEL LEE	900,000	0.062
12	INTERNATIONAL POLYMER CORP.	718,000	0.050
13	JULIET BANGAYAN	545,000	0.038
14	RODOLFO S. ESTRELLADO	500,000	0.035
15	ELVIRA A. TING	500,000	0.035
16	BENISON L. CO	364,000	0.025
17	KENNETH T. GATCHALIAN	320,000	0.022
18	CAROLINA G. AQUINO	250,000	0.017
19	BETTY S. CHAN	250,000	0.017
20	NEPTALI A. GONZALES	250,000	0.017

3. Dividends

   (a) No cash dividends were declared on the Company's common equity for the last three fiscal years.

   (b) Common shares are entitled to dividends which shall be payable out of the Company's surplus profits. Dividends shall be declared at such time and in such manner and in such amounts as the Board of Directors shall determine. No dividends shall be declared if this will impair the capital of the Company.

4. Recent Sale of Unregistered Securities

   There has been no sale of unregistered securities within the past three (3) years.

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

A) FULL FISCAL YEAR:

Results of Operations:

In 2018, the Company was able to post a consolidated net sales of ₽ 306.91M compared to ₽ 370.96M sales of 2017 showing a decrease of 17.27% or ₽ 64.05M.

The Company's current ratio registered at 4.09:1. Current Assets reached ₽ 1.25B while Current Liabilities registered at ₽ 0.31B. Debt-to-equity ratio registered at 0.49:1. The Balance Sheet shows accounts indicative of positive liquidity condition. Total assets registered at ₽ 1.62B.

Comparative Top Key Performance Indicators of the Company:

Management evaluates the Company's performance as it relates to the following:

a. Sales – The Company gauge its performance by determining the return on sales (net income after tax over the net sales). It indicates net profitability of each peso of sales.

b. Accounts Receivable – The Company assesses the efficiency in collecting receivables and in managing of credit by determining the past due ratio thru the aging of receivables.

c. Gross Profit Margin – Measures effectiveness of pricing and control of project development cost. This is derived by dividing gross profit over net sales.

d. Working Capital – The Company's ability to meet obligations is measured by determining current assets over current obligations. Working capital turnover is calculated by dividing Sales over Ave. Net Working Capital.

e. Variance Analysis – Another tool that measures efficiency on how the actual sales were attained via a vis forecasted sales.

INDICATOR	**2018**	**2017**
Return on Sales	5.53%	5.30%
Past Due Ratio	5%	17%
Gross Profit Rate	57.44%	60.46%
Working Capital Turnover	0.33	0.46
Sales Projection	489M	500M
Sales Variance	-37.42%	-25.81%

Financial Condition:

Causes of material changes from period to period of financial statements:

a. Cash – the increase of 38.46% was basically attributable to improved collection on sales, and proceeds from loans.

b. Current Trade Receivables – the increase of 27.85% was due to new sales recorded during the year.

c. Non-Current Trade and Other Receivables – the decrease of 65.11% was due to improved collections on sales and restatement of old accounts.

d. Deferred Tax Assets – the decrease of 64.69% was due to the application Net Operating Loss Carry-Over (NOLCO) and Minimum Corporate Income Tax (MCIT) for the year.

e. Accounts Payable and Other Liabilities – the increase of 11.48% was due to increase in payable to suppliers on credit terms.

f. Deferred Gross Profit – the increase of 32.99% was due to sales reported for the period which are not yet completed as at reporting date and to be realized thereafter, based on the percentage of completion of the real estate inventories sold.

g. Customers' Deposits – the decrease of 21.21% was due to increase in reported sales that has not been booked as sales due to its low payment milestone.

h. Advances to/from Related Parties – the increase of 5.00% was due to advances to related parties.

i. Deferred Tax Liabilities – the increase of 10.53% was due to excess of financial realized gross profit over taxable realized gross profit.

j. Retirement Benefits Obligation - the increase 29.64% was due to the expense recognized for the year based on valuation for 2018.

5. ANALYSIS OF PRIOR YEAR OPERATIONS AND FINANCIAL CONDITION:

Results of Operations:

In 2017, the Company was able to post a consolidated net sales of ₱ 370.96M compared to ₱ 69.50M sales of 2016 showing an increase of 433.74%. As result the Company managed to have a Net Income after tax of ₱ 19.29M, compared to 2016's ₱ 1.97M, an increase of 17.32M or 876.58%.

The Company's current ratio registered at 1:4.73. Current Assets reached ₱ 1.13B while Current Liabilities registered at ₱ 0.24B. Debt-to-equity ratio registered at 1:0.50. The Balance Sheet shows accounts indicative of positive liquidity condition. Total assets registered at ₱ 1.61B.

Comparative Top Key Performance Indicators of the Company:

Management evaluates the Company's performance as it relates to the following:

a. Sales – The Company gauge its performance by determining the return on sales (net income after tax over the net sales). It indicates net profitability of each peso of sales.

b. Accounts Receivable – The Company assesses the efficiency in collecting receivables and in managing of credit by determining the past due ratio thru the aging of receivables.

c. Gross Profit Margin – Measures effectiveness of pricing and control of project development cost. This is derived by dividing gross profit over net sales.

d. Working Capital – The Company's ability to meet obligations is measured by determining current assets over current obligations. Working capital turnover is calculated by dividing Sales over Ave. Net Working Capital.

e. Variance Analysis – Another tool that measures efficiency on how the actual sales were attained via a vis forecasted sales.

INDICATOR	**2017**	**2016**
Return on Sales	5.20%	2.84%
Past Due Ratio	17%	NA
Gross Profit Rate	60.45%	58.86%
Working Capital Turnover	0.46	0.10
Sales Projection	500M	200M
Sales Variance	-25.81%	-35.25%

Financial Condition:

Causes of material changes from period to period of financial statements:

a. Cash – the increase of 49.35% was basically attributable to improved collection on sales, and proceeds from loans.

b. Current Trade Receivables – the increase of 216.85% was due to new sales recorded during the year.

c. Non-Current Trade and Other Receivables –the decrease of 42.24% was due to improved collections on sales and restatement of old accounts.

d. Deferred Tax Assets – the increase of 32.32% was due to the additional Net Operating Loss Carry-Over (NOLCO) for the year.

e. Accounts Payable and Other Liabilities – the increase of 24.57% was due to increase in payable to suppliers on credit terms.

f. Deferred Gross Profit – the increase of 161.40% was due to sales reported for the period which are not yet completed as at reporting date and to be realized thereafter, based on the percentage of completion of the real estate inventories sold.

g. Customers' Deposits – the increase of 357.70% was due to increase in reservation fees for the year.

h. Loans Payable (Borrowings) – the increase of 42.08% was result of loan availed from Luzon Development Bank amounting to P35M.

i. Advances from Related Parties – the increase of 25.93% was due to the acquisition of lot for Wellford Homes Malolos project, payment was advanced by affiliates.

j. Deferred Tax Liabilities – the increase of 106.39% was due to excess of financial realized gross profit over taxable realized gross profit.

In 2016, the Company was able to post a consolidated net sales of ₽ 69.50M compared to ₽ 123.80M sales of 2015 which shows a decrease of 43.86%. Notwithstanding the slump in sales the Company manage to have a net income after tax of ₽ 1.97M, or ₽ 0.87M higher than 2015's ₽ 1.11M, an increase of 78.38%. This is due to increase in realized gross profit from previous years sales brought about by the acceleration in project completion.

The Company's current ratio registered at 1:6.27. Current Assets reached ₽ 870.30M while Current Liabilities registered at ₽ 138.77M. Debt-to-equity ratio registered at 1:0.34. The balance sheet shows accounts indicative of positive liquidity condition. Total assets registered at ₽ 1.41B.

Comparative Top Key Performance Indicators of the Company:

Management evaluates the Company's performance as it relates to the following:

a. Sales – The Company gauge its performance by determining the return on sales (net income after tax over the net sales). It indicates net profitability of each peso of sales.

b. Accounts Receivable – The Company assesses the efficiency in collecting receivables and in managing of credit by determining the past due ratio thru the aging of receivables.

c. Gross Profit Margin – Measures effectiveness of pricing and control of project development cost. This is derived by dividing gross profit over net sales.

d. Working Capital – The Company's ability to meet obligations is measured by determining current assets over current obligations. Working capital turnover is calculated by dividing Sales over Ave. Net Working Capital.

e. Variance Analysis – Another tool that measures efficiency on how the actual sales were attained via a vis forecasted sales.

INDICATOR	**2016**	**2015**
Return on Sales	2.84%	0.90%
Past Due Ratio	N/A	NA
Gross Profit Rate	58.86%	55.29%
Working Capital Turnover	0.10	0.19
Sales Projection	200M	120M
Sales Variance	-35.25%	4.00%

Financial Condition:

Causes of material changes from period to period of financial statements:

a. Cash – the decrease of 22.19% was basically attributable to catch-up payments of prior years' payables and current payables particularly to contractors to fast track completion of on-going projects.

b. Current Trade Receivables – the decrease of 11.70% was due to the slide in sales

c. Deferred Tax Assets – the significant decrease of 50.27% was due to the expiration of the Company's Net Operating Loss Carry-Over (NOLCO) from prior years

d. Accounts Payable and Other Liabilities – the decrease of 19.11% was due to timely payments made to contractors and suppliers

e. Deferred Gross Profit – the decrease of 43.33% was due to higher percentage of completion of the projects.

f. Deferred Tax Liability – the increase of 25.91% was due to adjustment on Deferred Gross profit

In the year 2015, the Company was able to post a consolidated net sales of ₽ 123.80M compared to ₽ P 118.71M sales of 2014 which shows an increase of 4.3%.

The Company's current ratio registered at 1:5.18. Current Assets reached ₽ 883.34M while Current Liabilities registered at ₽ 170.69M. Debt-to-equity ratio registered at 1:0.37. The balance sheet shows accounts indicative of positive liquidity condition. Total assets registered at ₽ 1.44B.

Comparative Top Key Performance Indicators of the Company:

Management evaluates the Company's performance as it relates to the following:

a. Sales – The Company gauge its performance by determining the return on sales (net income after tax over the net sales). It indicates net profitability of each peso of sales.

b. Accounts Receivable – The Company assesses the efficiency in collecting receivables and in managing of credit by determining the past due ratio thru the aging of receivables.

c. Gross Profit Margin – Measures effectiveness of pricing and control of project development cost. This is derived by dividing gross profit over net sales.

d. Working Capital – The Company's ability to meet obligations is measured by determining current assets over current obligations. Working capital turnover is calculated by dividing Sales over Ave. Net Working Capital.

e. Variance Analysis – Another tool that measures efficiency on how the actual sales were attained via a vis forecasted sales.

INDICATOR	2015	2014
Return on Sales	0.90%	11.26%
Past Due Ratio	N/A	15.17%
Gross Profit Rate	55.29%	53.02%
Working Capital Turnover	0.190	0.095
Sales Projection	120M	490M
Sales Variance	4.00	-24.04%

Financial Condition:

Causes of material changes from period to period of financial statements:

1. Current Trade Receivables – the decrease of 29.83% was due to improved collection on sales

2. Accounts Payable and Accrued Expenses – the decrease of 29.15% was due to accelerated payments made to contractors and suppliers

3. Retention Payable and Guaranty bonds – the 3.92% decrease again pertains to the accelerated payments and releases of the Retention Payables to contractors

4. Deferred Gross Profit – the increase of 3.48% was due to sales generated for the year.

PLAN OF OPERATION

The Company plans to complete additional site development works of Pacific Grand Townhomes Phase 1 and Phase 4 of Pacific Grand Villas in Cebu, as well as Wellford Homes – Parcel A.

The Company are also active in the construction of Ready For Occupancy (RFO) units since many home buyers are eager to move in. There is still a strong demand for ready to move-in units thus the decision to construct more RFO units. Site improvements shall also be done so as to improve marketability.

The Company launched Wellford Residences - Mactan this January. As previously discussed, the project is modern American-themed development. The target market of the development is medium cost, the development type under PD 957. Groundbreaking of the first tower is set for the 4th quarter of 2019. The tower will have 80 condominium units and is expected to be completed by the first half of 2021.

With the launch of new projects, the Company will be able to augment its dwindling inventory to support its sales target for this year till the next three years.

To support its liquidity, the Company is offering attractive and flexible payment terms to its buyers and has also accredited new contractors which can deliver built units faster so as to expedite collection of loan proceeds from partner institutions. Pre-selling of its units and CTS Financing are being explored to fund its projects especially for its newly launched projects.

New Residential and Commercial Projects

With Management's direction to turn around the Company for the better, the year 2019 is expected to be more exciting as well as challenging for the Company as it embarks on launching three major residential projects, namely Wellford Residences in Mactan, Wellford Homes – Jaro (Parcel B) and the Company's first horizontal development in Luzon, Wellford Homes – Malolos. The Company is also gearing up for its commercial projects in Iloilo by developing the area identified for a commercial strip which is just outside the our Company's development projects – Chateaux Geneva, Costa Smeralda and Wellford Homes – Parcel A.

Other Notes to Operations and Financials:

Analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- **Any known trends, demands, commitments, events or uncertainties that will have an impact on the issuer's liquidity;**

  At present, the uncertainty that has a material impact on sales is the economic situation. The seemingly improving economic situation has not translated into a significant buying mood for the real estate market. As a result, there are contingencies that may affect future operations of the company the resolution of which are dependent to a large extent on the efficacy of the fiscal measures and other actions.

- **Any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;**

The Company sees no event that will trigger direct or contingent financial obligation that is material to the Company.

- **All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during reported period.**

  There were no material off-balance sheet transactions, agreements, obligations, (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reported period.

- **Any material commitments for capital expenditures, the general purpose of such commitments and expected sources of funds of such expenditures.**

  There were no material commitments for capital expenditures except those arising from the ordinary project development requirements that were well within the regular cash flow budget coming from internally generated funds.

- **Seasonal aspects that had material effect on the financial condition or results of operation.**

  Projects are launched any time of the year depending on several factors such as completion of plans and permits and appropriate timing in terms of market condition and strategies. Development and construction works follow.

- **Internal and external sources of liquidity**

  Collections from selling activities provide liquidity. Externally, the Company avails of credit lines offered by banks. The Company periodically reviews its capital structure and existing obligations.

Item 7. Financial Statements

The consolidated Financial Statements and related Notes to Financial Statements of the Company are incorporated herein by reference and attached as an integral part of this Annual Report.

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

There were no changes in or disagreements with the Company’s external auditors on accounting and financial disclosures.

Independent Public Accountant

The Company’s independent public accountant is the accounting firm of Diaz, Murillo, Dalupan and Co. The same external auditor might be recommended by the Board of Directors at the Annual Meeting of Stockholders. The representatives of the external auditor are expected to be present at the Meeting, where they will have the opportunity to make a statement if they so desire.

1. Audit and Audit-Related Fees

		YEAR	AMOUNT
a.	Audit of Financial Statement	2018	₱ 537,075.00
		2017	511,500.00

2. No audit fees for other related services

	YEAR	AMOUNT
3. Tax Fees	2018	nil
	2017	nil

4. All other fees

   a. No other fees were billed and paid during the last two (2) fiscal years.

The external auditor regularly tenders an audit engagement proposal that the Company's Audit Committee reviews. The Audit Committee looks into the audit plan, scope and frequency of the audit and regularly holds committee meetings with the external auditor.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

1. Respective business experience of the Members of the Board of Directors and Officers covering the past five (5) years:

   a. **DEE HUA T. GATCHALIAN** – 69 years old, Filipino **((Director)**
      - President – Wellex Industries, Inc.
      - Vice President/Director – The Wellex Group, Inc.
      - Chairwoman and President – Westland Pacific Properties Corp.
      - Chairwoman and President – Palawan Estates Corp

   b. **KENNETH T. GATCHALIAN** – 41 years old, Filipino **(Vice Chairman)**
      - President/Director – Wellex Industries, Inc..
      - President/Director – The Wellex Group, Inc.
      - Treasurer/Director – Forum Pacific, Inc.
      - President/Director – Waterfront Philippines, Inc.

   c. **ELVIRA A. TING** – 57 years old, Filipino **(President/CEO)**
      - Director / President – Forum Pacific, Inc.
      - Vice President/Director – Wellex Industries, Inc.
      - Director/ Treasurer – Waterfront Philippines, Inc.
      - Vice Chairman /Director – Acesite Philippines, Inc.
      - Treasurer/ Director – Recovery Dev't Corp.
      - Chairwoman and President – Orient Pacific Corp.
      - Director – Plastic City Industrial Corp.
      - Treasurer / Director – The Wellex Group, Inc
      - Chairwoman and President – Crisanta Realty & Development Corp

- Corp. Secreatary / Director – Waterfront Manila Premier Development, Inc..

d. **JOAQUIN P. OBIETA -** 84 years old, Filipino **(Director)**
   - Managing Partner – Corporate Counsels, Phils.
   - Director – Forum Pacific, Inc.

e. **RENATO B. MAGADIA** – 80 years old, Filipino **(Director)**
   - Chairman – ZetaMark, Inc., Mabuhay Vinyl Corporation, Metro Alliance Holdings & Equities Corporation
   - Vice Chairman – Acesite (Phils.) Hotel Corporation

f. **ARTHUR M. LOPEZ** – 71 years old, Filipino **(Chairman)**
   - Country Representative – CCA Management B.V.
   - Consultant – Bellevue Resort, Bellevue Suites and Palmerston Hotel
   - Chairman – Acesite Philippines Hotel Corporation
   - Director – Waterfront Hotels

g. **ARTHUR R. PONSARAN -** 75 years old, Filipino **(Director)**
   - Managing Partner – Corporate Counsels, Phils.
   - Director – Forum Pacific, Inc., Acesite (Phils.) Hotel Corporation
   - Corporate Secretary – Waterfront Philippines Incorporation, Wilcon Corporation
   - Chairman – Value Management & Options Corp. and Marfour Credit Corporation

h. **BYOUNG HYUN SUH** – 61 years old, Korean **(Independent Director)**
   - President – Pan Islands, Inc.
   - Independent Director – Forum Pacific, Inc
   - Independent Director – Wellex Industries, Incorporated.
   - Vice Chairman – World Okta Federation.

i. **RICHARD L. RICARDO -** 55 years old, Filipino **(Director/Treasurer)**
   - Vice President for Strategic Initiatives – The Wellex Group, Inc.
   - Vice President for Corporate Affairs – Acesite (Phils.) Hotel Corporation
   - Corporate Affairs Officer – Waterfront Philippines, Inc.
   - Director – Wellex Industries, Inc.
   - Director – Forum Pacific Inc.
   - Vice President for Corporate Affairs – Metro Alliance Holdings & Equities Corp.

j. **JAMES B. PALIT-ANG** – 54 years old, Filipino **(Director/VP- Property Management)**
   - Chairman & President – Noble Arch Realty & Construction Corp.
   - Chairman & President - Crisanta Realty Development Corp.
   - Director & Corporate Treasurer – Pacific Rehouse Corporation
   - Vice President – Forum Holdings Corp.
   - Chairman and President – Pacific Concorde Corp.
   - Treasurer – Metro Alliance Holdings & Equities Corp.

k. **SERGIO R. ORTIZ-LUIS, JR**.- 76 years old, Filipino **(Independent Director)**
   - President – Philippine Exporters Confederation, Inc.
   - Independent Director – Waterfront Philippines, Inc.
   - Director – Rural Bank of Baguio

- Vice Chairman - Alliance Global, Inc.
- Independent Director – Acesite (Phils.) Hotel Corp.
- Honorary Chair/Treasurer – Phil. Chamber of Commerce & Industry
- Founding Director - Int'l. Chamber of Commerce of the Phils.

l. **ARSENIO A. ALFILER, JR.** 72 years old, Filipino **(Corporate Secretary)**
- Partner – Corporate Counsels, Phils. Law Offices.
- Corporate Secretary – – Forum Pacific, Inc., Acesite (Phils.) Hotel Corporation.
- Asst. Corporate Secretary – Waterfront Philippines, Inc., Iloilo City Development Bank

m. **MARIEL FRANCISCO** – 37 years old, Filipino **(Asst. Corporate Secretary)**
- Associate – Corporate Counsels, Philippines Law Offices
- Corporate Secretary – Wellex Industries, Inc.
- Assistant Corporate Secretary – Acesite (Phils.) Hotel Corporation, Forum Pacific, Inc.

1. The term of office of the Directors is one (1) year. All of the directors and executive officers, except for Messrs. Joaquin P. Obieta, Sergio R. Ortiz-Luis, Jr., James B. Palit-Ang and Richard L. Ricardo have served for fifteen (17) years. We take note of SEC Memorandum Circular No. 9 Series of 2011, regarding the Term Limits for Independent Directors and we are presently reviewing the term limits of our current Independent Directors.

2. There is no person who is not an executive officer but expected by the registrant to make significant contribution to the business.

3. Ms. Dee Hua T. Gatchalian and Ms. Elvira A. Ting are sisters. Ms Dee Hua T. Gatchalian is the mother of Kenneth T. Gatchalian.

4. None of the directors or officers of the registrant has been involved in any bankrupt petition, or a violation of a Securities or Commodities Law nor has been convicted by final judgment, nor has been subjected to any order or decree.

Item 10. Executive Compensation

1. Estimated Compensation :

Name and Principal position	*Year*	*Salary*	*Bonus*	*Other Annual Compensation (13th Mo.)*
ELVIRA A. TING President & CEO	2018	₱ 840,000.00	0.00	₱70,000.00
MANOLO B. FERNANDEZ VP – Operations/COO	2018	₱ 760,000.00	0.00	₱ 63,333.33
PANTIG, GLENN GERALD VP – Operations/COO	2018	₱ 300,000.00	0.00	₱ 25,000.00
JAMES B. PALIT-ANG				

VP – Property Mgmt	2018	₱ 624,000.00	0.00	₱ 52,000.00
JOCELYN A. VALLE Finance Head	2018	₱ 504,000.00	0.00	₱ 42,000.00
FERDINAND P. HALILI Operations Head	2018	₱ 504,000.00	0.00	₱ 42,000.00
BRANDO M. BULOSAN Planning and Design Head	2018	₱ 285,137.50	0.00	₱ 30,000.00

1. Glenn Gerald Pantig was replaced Manolo B. Fernandez as Chief Operating Officer effective October 1, 2018. Mr. Fernandez was assigned to an affiliate of the Company.

2. Each member of the Board of Directors is given P 10,000.00 per diem for attendance in a special or regular board meeting and P5,000 for attendance in a committee meeting.

Item 11. Security Ownership of Certain Beneficial Owners and Management

1. Security Ownership of Certain Record and Beneficial Owners:

Class	***Name and Address of Record/Beneficial Owner***	***Citizenship***	***Amount and Nature Record/Beneficial Ownership ("r" or "b")***	***% to Total***
Common	RECOVERY REAL ESTATE CORP. * 35th FLR. ONE CORPORATE CTR JULIA VARGAS COR. MERALCO AVE. PASIG CITY	FILIPINO	P 150,000,000 "r"	10.377%
Common	REXLON REALTY GROUP, INC. ** 22nd FLR. CITIBANK TOWER 8741 PASEO DE ROXAS MAKATI CITY	FILIPINO	P 200,000,000 "r"	13.836%
Common	ROPEMAN INT'L., CORP. *** #7 T. SANTIAGO STREET CANUMAY, VALENZUELA METRO MANILA	FILIPINO	P 178,270,000 "r"	12.332%
Common	THE WELLEX GROUP, INC. **** 35th FLR. ONE CORPORATE CTR JULIA VARGAS COR. MERALCO AVE. PASIG CITY	FILIPINO	P 143,892,990 "r"	9.954%

2. Security Ownership of Management

Class	***Name and Address of Record/Beneficial Owner***	***Citizenship***	***Amount and Nature Record/Beneficial Ownership ("r" or "b")***	***% to Total***
Common	Elvira A. Ting President/CEO	Filipino	500,000	0.035%
Common	Kenneth T. Gatchalian Vice Chairman	Filipino	320,000	0.022%
Common	James B. Palit-Ang VP – Land Mgt & Sp Proj	Filipino	1,000	0.000%
Common	Dee Hua T. Gatchalian	Filipino	2,000	0.000%

	Director			
Common	Arthur M. Lopez Chairman	Filipino	1,000	0.000%
Common	Renato B. Magadia Director	Filipino	1,000,000	0.069%
Common	Joaquin P. Obieta Director	Filipino	1,100	0.000%
Common	Sergio R. Ortiz-Luis, Jr. Independent Director	Filipino	1,000	0.000%
Common	Arthur R. Ponsaran Director	Filipino	1,000	0.000%
Common	Richard L. Ricardo Director/Treasurer	Filipino	1,230,000	0.085%
Common	Byoung Hyun Suh Independent Director	Korean	1,000	0.000%

- ♦ Beneficial ownership of all directors and officers as a group unnamed = 3,058,100 shares.
- ♦ Voting Trust Holders of 5% or more
  There are no voting trust holders of 5% or more of the securities of the registrant.
- ♦ Changes in Control
  There has been no change in the control of the registrant since the beginning of its fiscal year.

* Recovery Real Estate Corporation is represented by Ms.Dee Hua T. Gatchalian
** Rexlon Realty Group, Inc. is represented by Ms.Dee Hua T. Gatchalian
*** Ropeman International Corporation is represented by Ms.Dee Hua T. Gatchalian
**** The Wellex Group, Inc. is represented by Ms.Dee Hua T. Gatchalian

Item 12. Certain Relationships and Related Transactions.

The Company used to be known as Philippine Cocoa Estates Corporation. The Company then had a total issued and outstanding capital stock of 25,121,603 shares, of which, 25,035,115 were owned by Benguet Management Corporation ("Benguet"). In December 1995, Benguet sold its 25,035,115 shares to the Wellex Group, Inc. ("Wellex"). At present, Wellex holds 143,892,990 shareholdings in the Company.

Item 13. Exhibits and Reports on SEC Form 17-C

Report on SEC Form 17-C was filed by the Company on August 14, 2018 with the following information:

"Please be informed that the annual meeting of the stockholders of PHILIPPINE ESTATES CORPORATION held on October 26, 2018, the following matters were taken up and acted upon by the Board and the Stockholders in the manner indicated:

1. The stockholders elected the members of the Board of Directors to serve for the term 2018-2019. Those elected regular members of the Board were:

   Mr. Kenneth T. Gatchalian
   Ms. Elvira A. Ting
   Ms. Dee Hua T. Gatchalian
   Mr. Arthur M. Lopez
   Mr. Renato B. Magadia

Atty. Arthur R. Ponsaran
Atty. Joaquin P. Obieta
Mr. Richard L. Ricardo
Mr. James B. Palit-Ang
Mr. Sergio R. Ortizs-Luis, Jr. (Independent Director)
Mr. Byoung Hyun Suh (Independent Director)

2. The stockholders designated Diaz Murillo Dalupan & Company as the Corporation's external auditors.

3. The stockholders designated Corporate Counsels, Philippines – Law Offices as the Corporation's external counsel.

   At the meeting of the Board held immediately after the Stockholders' meeting, the newly elected Directors elected the following Corporate Officers:

a) Chairman	- Mr. Arthur M. Lopez
b) President	- Ms. Elvira A. Ting
c) Treasurer	- Mr. Richard L. Ricardo
d) Corporate Secretary	- Atty. Arsenio Alfiler Jr.
e) Asst. Corporate Secretary	- Atty. Mariel Francisco

AUDIT COMMITTEE

Mr. Byoung Hyun Suh (Chairperson)
Mr. Arthur M. Lopez (Member)
Mr. Sergio Ortiz-Luis, Jr. (Member)
Ms. Dee Hua T. Gatchalian (Member)
Mr. Kenneth Gatchalian (Member)

EXECUTIVE COMMITTEE

Ms. Elvira A. Ting (Chairperson)
Mr. Sergio Ortiz-Luis, Jr. (Member)
Ms. Dee Hua T. Gatchalian (Member)
Mr. Kenneth Gatchalian (Member)
Mr. Richard Ricardo (Member)

CORPORATE GOVERNANCE COMMITTEE

Mr. Sergio Ortiz-Luis, Jr	(Chairperson)
Mr. Byoung Y. Suh	(Member)
Mr. Arthur M. Lopez	(Member)

PART IV – CORPORATE GOVERNANCE

For submission on May 30, 2019

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this SEC FORM 17-A for the year 2018 is signed on behalf of the issue by the undersigned thereunto duly authorized, in the City of Pasig on April 23, 2019.

By:

ARTHUR M. LOPEZ
Chairman

ELVIRA A. TING
President & CEO

RICHARD L. RICARDO
Treasurer

JOCELYN A. VALLE
Finance Head/Corp. Information Officer

SUBSCRIBED AND SWORN to before me this _______ day of 24 APR 2019, 2019 affiants exhibited to me their respective competent evidences of identity as follows:

Name	Tax Identification Number	Issuer
Arthur M. Lopez	050-181-980-515	Bureau of Internal Revenue
Elvira A. Ting	117-922-153-000	Bureau of Internal Revenue
Richard L. Ricardo	140-857-860-000	Bureau of Internal Revenue
Jocelyn A. Valle	110-820-293-000	Bureau of Internal Revenue

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Book No. 3
Series of 2019

ATTY. LADY MAE A. CLEMENTE
PTR No. 5232087; 1-4-19 Pasig
IBP Membership No. 056404; RSM
Roll No. 69675
MCLE Compliance No. VI-0003249
Appointment No. 77 (2019-2020)
Julia Vargas Avenue Corner Meralco Avenue,
Ortigas Center, Pasig City

Philippine Estates Corporation and Subsidiary

Consolidated Financial Statements
December 31, 2018 and 2017

and

Independent Auditors' Report

PHILIPPINE ESTATES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY** is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with Philippine Financial Reporting Standards (PFRS), and for such internal control as Management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud of error.

In preparing the Group's 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.

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

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

Diaz Murillo Dalupan and Company, the independent auditor, appointed by the stockholders has audited the consolidated financial statements in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ARTHUR M. LOPEZ
Chairman of the Board

ELVIRA A. TING
President / CEO

RICHARD L. RICARDO
Treasurer

Signed this 23rd day of April, 2019

24 APR 2019

SUBSCRIBED AND SWORN to me this 24 APR 2019 day of April, 2019 in the City of Pasig City, Philippines, Affiants exhibiting to me his/ their tax identification numbers as follows:

NAME	TIN No.
ARTHUR M. LOPEZ	050-181-980-515
ELVIRA A. TING	117-922-153-000
RICHARD L. RICARDO	140-857-860-000

ATTY. LADY MAE A. CLEMENTE
PTR No. 5232087; 1-4-19 Pasig
IBP Membership No. 056404; RSM
Roll No. 69675
MCLE Compliance No. VI-0003249
Appointment No. 77 (2019-2020)
Julia Vargas Avenue Corner Meralco Avenue,
Ortigas Center, Pasig City

Doc. No. 28
Page No. 7
Book No. 3
Series of 2019

Diaz Murillo Dalupan and Company
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors and Stockholders of
PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
35th Floor, One Corporate Center
Doña Julia Vargas Ave., corner Meralco Avenue
Ortigas Center, Pasig City

Opinion

We have audited the consolidated financial statements of **Philippine Estates Corporation and Subsidiary** (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audits 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 (the '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. We have determined the matters described below to be the key audit matters to be communicated in our report.

First Time Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the Group adopted PFRS 9, *Financial Instruments (2014)*. PFRS 9, which replaced PAS 39, *Financial Instruments: Recognition and Measurement,* provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial asset not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Group adopted PFRS 9 using modified retrospective approach.

The Group's adoption of the expected credit loss (ECL) model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: significant increase in credit risk exposures; determining the method to estimate the lifetime ECL; defining what comprises default; determining assumptions to be used in the ECL model such as the expected life of the significant financial assets such as cash, trade and other receivables, and advances to related parties; timing and amount of expected net recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

Refer to Notes 2 and 30 of the notes to consolidated financial statements for the disclosures in relation to the adoption and application of the PFRS 9 ECL model.

Our Response

Our audit procedures to address the assessment in adoption of the ECL model included the following:

- Checked the methodology used in applying the simplified and general approach by evaluating the key inputs, assumptions, and formulas used.
- Tested the definition of default against historical analysis of accounts and credit risk management policies and practices.
- Tested loss given default by inspecting historical recoveries including the timing, related costs, and write-offs.
- Recalculated the impairment provisions and checked the transition adjustments together with the disclosure made in the financial statements based on the requirements of PFRS 9.

Revenue Recognition and Realization of Gross Profit

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from sale of real estate inventories is recognized based on percentage-of-completion and are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. However, for income tax computation purposes, the realized gross profit is computed based on collections.

Our Response

Our audit procedures to address the risk of material misstatement relating to revenue recognition, which was considered to be a significant risk, included:

- Vouched and verified the sales and its corresponding cost of sales during the year to its supporting documents.
- Obtained the percentage-of-completion of each project from the contractors.
- Reviewed collections of receivables of current and prior years' sales for the realization of gross profit.

- Verified the accuracy and mathematical calculations of each of the percentage-of-completion collections during the year.
- Performed site visits for sample of properties (focused primarily on projects under development stage) to assessed the stage of completion.

The Group's disclosures about its sales, cost of sales as well as its deferred gross profit are included in Notes 16, 18, and 19.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audits 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 audits. 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 audits.

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

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

DIAZ MURILLO DALUPAN AND COMPANY
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until August 11, 2020
SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022
BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022

By:

Rosemary D. De Mesa
Partner
CPA Certificate No. 29084
SEC Accreditation No. 1089-AR-2, Group A, effective until May 10, 2020
Tax Identification No. 104-576-953
PTR No. 7344256, January 8, 2019, Makati City
BIR Accreditation No. 08-001911-007-2019, effective until March 27, 2022

April 23, 2019

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY

Consolidated Statements of Financial Position

	As at December 31	
	2018	2017
ASSETS		
Current Assets		
Cash - note 4	**₱ 18,536,645**	₱ 13,387,986
Trade and other receivables (net) - note 5	**557,681,937**	436,189,465
Real estate inventories - note 6	**652,315,293**	653,812,080
Prepayments and other current assets - note 7	**25,834,843**	27,935,337
	1,254,368,718	1,131,324,868
Noncurrent Assets		
Advances to related parties (net) - note 22	**269,939,892**	315,981,430
Trade and other receivables (net of current portion) - net - nc	**30,968,359**	88,757,164
Property and equipment (net) - note 10	**42,954,558**	42,584,820
Financial asset at FVOCI - note 8	**12,500,000**	–
Available-for-sale financial assets - note 8	–	12,500,000
Investment property - note 9	**1,072,016**	1,072,016
Deferred tax assets - note 24	**3,779,843**	10,704,027
Other noncurrent assets - note 11	**7,141,166**	6,648,559
	368,355,834	478,248,016
TOTAL ASSETS	**₱ 1,622,724,552**	₱ 1,609,572,884
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other liabilities - note 12	**₱ 73,377,391**	₱ 65,823,994
Deferred gross profit - note 16	**142,196,397**	106,919,701
Borrowings - note 13	**85,552,116**	58,980,789
Customers' deposits - note 14	**5,759,604**	7,309,856
	306,885,508	239,034,340
Noncurrent Liabilities		
Advances from related parties - note 22	**102,468,587**	155,841,281
Borrowings (net of current portion) - note 13	**27,645,379**	52,321,666
Retention payable and refundable bonds - note 15	**24,444,408**	23,641,679
Deferred tax liabilities - note 24	**65,702,972**	59,442,755
Retirement benefits obligation - note 25	**7,785,795**	6,005,493
	228,047,141	297,252,874
	534,932,649	536,287,214
Equity		
Capital stock - note 17	**1,445,549,830**	1,445,549,830
Remeasurement gain on retirement benefits - note 25	**3,369,577**	3,641,398
Deficit	**(361,127,504)**	(375,905,558)
	1,087,791,903	1,073,285,670
TOTAL LIABILITIES AND EQUITY	**₱ 1,622,724,552**	₱ 1,609,572,884

(The accompanying notes are an integral part of these consolidated financial statements.)

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

	For the Years Ended December 31		
	2018	2017	2016
REAL ESTATE SALES - note 18	**₱ 306,912,405**	₱ 370,961,767	₱ 69,502,349
COST OF REAL ESTATE SOLD - note 19	**(130,621,844)**	(146,684,748)	(28,592,799)
GROSS PROFIT	**176,290,561**	224,277,019	40,909,550
DEFERRED GROSS PROFIT	**(79,615,714)**	(83,488,313)	(18,775,735)
REALIZED GROSS PROFIT DURING THE Y	**96,674,847**	140,788,706	22,133,815
REALIZED GROSS PROFIT FROM			
PREVIOUS YEARS SALES	**28,908,282**	17,410,056	47,826,959
TOTAL REALIZED GROSS PROFIT - note 16	**125,583,129**	158,198,762	69,960,774
OTHER INCOME - note 20	**27,420,024**	9,439,359	11,779,538
OPERATING EXPENSES - note 21	**(105,652,745)**	(105,751,984)	(52,962,149)
FINANCE COSTS - note 13	**(13,517,163)**	(13,400,827)	(11,783,857)
INCOME BEFORE TAX	**33,833,245**	48,485,310	16,994,306
PROVISION FOR INCOME TAX - note 24			
Current	**7,090,364**	1,320,013	1,211,682
Deferred	**9,498,109**	27,871,218	13,806,943
	16,588,473	29,191,231	15,018,625
NET INCOME FOR THE YEAR	**17,244,772**	19,294,079	1,975,681
OTHER COMPREHENSIVE INCOME (LOSS)			
Not subject to reclassification adjustment:			
Remeasurement gain (loss) on retirement			
on retirement benefits (net) - note 25	**(271,821)**	365,048	696,000
TOTAL COMPREHENSIVE INCOME			
FOR THE YEAR	**₱ 16,972,951**	₱ 19,659,127	₱ 2,671,681
EARNINGS PER SHARE - note 29	**₱ 0.012**	₱ 0.013	₱ 0.001

(The accompanying notes are an integral part of these consolidated financial statements.)

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY

Consolidated Statements of Changes in Equity

	Capital stock (Note 17)	Remeasurement gain (loss) on retirement benefits (net) (Note 25)	Deficit	Total
Balance, January 1, 2016	₱ 1,445,549,830	₱ 2,580,350	(₱ 397,175,318)	₱ 1,050,954,862
Comprehensive income				
Net income for the year	–	–	1,975,681	1,975,681
Remeasurement gain on retirement benefits - note 25	–	696,000	–	696,000
Total comprehensive income for the year	–	696,000	1,975,681	2,671,681
Balance as at December 31, 2016	1,445,549,830	3,276,350	(395,199,637)	1,053,626,543
Comprehensive income				
Net income for the year	–	–	19,294,079	19,294,079
Remeasurement gain on retirement benefits - note 25	–	365,048	–	365,048
Total comprehensive income for the year	–	365,048	19,294,079	19,659,127
Balance as at December 31, 2017as previously stated	**1,445,549,830**	**3,641,398**	**(375,905,558)**	**1,073,285,670**
Effect on adoption of PFRS 9	**–**	**–**	**(2,466,718)**	**(2,466,718)**
As at January 1, 2018, as restated	**1,445,549,830**	**3,641,398**	**(378,372,276)**	**1,070,818,952**
Comprehensive income (loss)				
Net income for the year	**–**	**–**	**17,244,772**	**17,244,772**
Remeasurement loss on retirement benefits - note 25	**–**	**(271,821)**	**–**	**(271,821)**
Total comprehensive income for the year	–	**(271,821)**	**17,244,772**	**16,972,951**
Balance as at December 31, 2018	**₱ 1,445,549,830**	**₱ 3,369,577**	**(₱361,127,504)**	**₱ 1,087,791,903**

(The accompanying notes are an integral part of these consolidated financial statements.)

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

	For the Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax	**₱ 33,833,245**	₱ 48,485,310	₱ 16,994,306
Adjustments for:			
Loss on cancelled contracts - note 21	**27,905,574**	32,248,713	1,732,014
Finance costs - note 13	**13,517,163**	13,400,827	11,783,857
Depreciation - note 10	**3,165,606**	3,384,564	3,437,260
Retirement benefits expense - note 25	**1,391,987**	1,268,331	1,462,730
Interest income - notes 4, 5, 20 and 22	**(8,647,445)**	(8,588,254)	(8,565,164)
Reversal of expected credit losses - note 22	**(14,137,623)**	(153,468)	(2,384,888)
Operating income before working capital changes	**57,028,507**	90,046,023	24,460,115
Decrease (increase) in:			
Trade and other receivables	**(94,695,908)**	(265,861,880)	34,972,880
Real estate inventories	**1,496,787**	43,253,795	(5,539,730)
Prepayments and other current assets	**2,036,728**	(1,333,853)	(2,220,191)
Increase (decrease) in:			
Accounts payable and other liabilities	**7,553,397**	12,983,218	(12,480,456)
Customers' deposit	**(1,550,252)**	5,712,763	(57,409)
Deferred gross profit	**35,276,696**	66,017,368	(31,268,890)
Retention payable and refundable bonds	**802,729**	(1,474,397)	1,458,292
Cash generated from (used in) operations	**7,948,684**	(50,656,963)	9,324,611
Interest received	**2,163,829**	1,620,302	1,570,570
Income tax paid	**(3,223,809)**	(1,320,013)	(1,211,682)
Net cash provided by (used in) operating activities	**6,888,704**	(50,356,674)	9,683,499
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of advances to related parties - note 22	**67,849,768**	57,986,434	23,919,998
Additional advances to related parties - note 22	**(567,044)**	(40,422,054)	(25,379,819)
Additions to property and equipment - note 10	**(3,535,345)**	(1,916,194)	(133,580)
Acquisition available-for-sale financial assets - note 8	**–**	(12,500,000)	–
Additions to other noncurrent assets	**(492,607)**	(18,741)	(102,492)
Net cash provided by (used in) investing activities	**63,254,772**	3,129,445	(1,695,893)
Forwarded			
Continued			
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances received from related parties - note 22	**4,986,402**	32,092,370	–
Settlement of advances from related parties - note 22	**(58,359,096)**	(7,350)	(115)
Proceeds from borrowings - note 13	**78,989,229**	85,942,157	38,892,932
Payment of borrowings - note 13	**(77,094,189)**	(52,975,125)	(37,652,635)
Finance costs - note 13	**(13,517,163)**	(13,400,827)	(11,783,857)
Net cash provided by (used in) financing activities	**(64,994,817)**	51,651,225	(10,543,675)
NET INCREASE (DECREASE) IN CASH	**5,148,659**	4,423,996	(2,556,069)
CASH - note 4			
At beginning of year	**13,387,986**	8,963,990	11,520,059
At end of year	**₱ 18,536,645**	₱ 13,387,986	₱ 8,963,990

(The accompanying notes are an integral part of these consolidated financial statements.)

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Notes to Consolidated Financial Statements
As at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018

1. CORPORATE INFORMATION

Philippine Estates Corporation (the 'Parent Company') was incorporated in the Philippines on May 30, 1983 as "Philippine Cocoa Estates Corporation". It was registered with the Securities and Exchange Commission (SEC) with its new corporate name on May 16, 1996 and started its commercial operations in 1996. The Parent Company's shares are listed and traded in the Philippine Stock Exchange (PSE).

The principal activity of the Parent Company is to engage in the business of holding and developing real estate or other properties for industrial, commercial, residential, leisure or sports purposes, and in pursuance thereof, to acquire by purchase, lease or otherwise, real estate and/or appurtenant properties and/or interest therein. The Parent Company's condominium projects and other developmental activities are located in the cities of Manila, Bulacan, Tagaytay, Cavite, Cebu and Iloilo.

The registered office of the Parent Company, which is also its principal place of business, is at 35th Floor, One Corporate Center, Doña Julia Vargas Ave., corner Meralco Avenue, Ortigas Center, Pasig City.

The Parent Company owns 100% of the shares of stocks issued and outstanding of Mariano Arroyo Development Corporation (MADCorp), its Subsidiary.

The financial position and results of operations of the Parent Company and its Subsidiary, (herein referred to as the 'Group') are consolidated in these financial statements.

The accompanying consolidated financial statements as at and for the year ended December 31, 2018 including its comparatives for 2017 and 2016 were approved and authorized for issue by its Board of Directors (BOD) on April 23, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis except for financial assets at fair value through other comprehensive income (FVOCI) which has been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

Impact of the Revised Code

The Republic Act No. 11232 otherwise known as the Revised Corporation Code of the Philippines (the "Revised Code") which took effect on February 23, 2019, aimed to improve the ease of doing business in the Philippines, affording more protection to corporations and stockholders, and promoting good corporate governance.

The Revised Code requires the annual financial statements to be audited by an independent certified public accountant. However, if the total assets or liabilities of the corporation are less than ₱600,000, the financial statements shall be certified under oath by the corporation's treasurer or chief financial officer.

The Revised Code should be applied prospectively. The requirement to prepare and submit the annual financial statements based on the Revised Code is effective beginning on or after February 23, 2019. All financial statements covering the periods on or before February 22, 2019 are required to be prepared and submitted in accordance with the Old Corporation Code or Batas Pambansa Bilang 68, in addition to the requirement of the SRC Rule 68.

This will have no impact on the preparation and submission of the Group's consolidated financial statements.

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso (₱), the Group's functional currency. All amounts are rounded to the nearest peso except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and a subsidiary it controls. Control is achieved when the Parent Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control.

When the Parent Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Parent Company considers all relevant facts and circumstances in assessing whether or not the Parent Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Parent Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Parent Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Parent Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The financial statements of the subsidiary are prepared for the same reporting year, using accounting policies that are consistent with those of the Parent Company. Intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Composition of the Group

Details of the Parent Company's subsidiary as at December 31 are as follows:

	Percentage of ownership	
	2018	2017
Mariano Arroyo Development Corporation	**100%**	100%

The subsidiary's registered office is at 35th Floor, One Corporate Center Doña Julia Vargas Avenue corner Meralco Avenue Ortigas Center, Pasig City.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2018.

PFRS 9, Financial Instruments (2014), replaces PAS 39 *Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

The standard requires all recognized financial assets that are within the scope of PAS 39 to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The Group has applied PFRS 9 for the first time.

The Group has adopted the PFRS 9 Financial Instruments from January 1, 2018 and resulted in changes in accounting policies as follows:

(a) Classification and measurement of financial instruments

The changes in the classification and measurement of the Group's financial instruments are as follows:

		Classification		**January 1, 2018**		
		PAS 39	PFRS 9	**As previously reported**	**Adjustments**	**As restated**
Cash in banks	(1)	Loans and receivables	Amortized cost	**₱ 13,299,540**	**₱ –**	**₱ 13,299,540**
Trade and other receivables*	(1)	Loans and receivables	Amortized cost	**524,946,629**	**–**	**524,946,629**
Investment in available-for-sale financial assets	(2)	Available-for-sale	FVOCI	**12,500,000**	**–**	**12,500,000**
Advances to related parties	(1)	Loans and receivables	Amortized cost	**315,981,430**	**–**	**315,981,430**
Refundable deposit	(1)	Loans and receivables	Amortized cost	**6,405,096**	**–**	**6,405,096**

The assessment of the Group's business model was made as at January 1, 2018, and applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The effects of reclassification of financial instruments into the appropriate PFRS 9 categories are as follows:

(1) Cash in banks, trade and other receivables, advances to related parties and refundable deposits previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortized cost.

(2) Unquoted equity investments previously classified as available-for-sale (AFS) financial assets are now classified and measured as equity instruments designated at FVOCI. The Group elected to classify irrevocably its unquoted equity investments under this category as it considers these investments to be strategic in nature and it intends to hold these investments for the foreseeable future.

While there was a change in the classification and measurement on the Group's financial instruments beginning January 1, 2018 (upon adoption of PFRS 9), there were no changes in the balances of any line item in the consolidated financial statements since the accounting policies previously adopted under PAS 39 is the same as its counterpart under PFRS 9, thus no restatement was made in the consolidated financial statements.

(b) Impairment of financial assets

The Group adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Group not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to impairment of financial assets are recognized in the opening balance of Deficit (or other component of equity, as appropriate) in the current year.

The table below shows the impact of the adoption of PFRS 9 to the Group's total equity as at January 1, 2018.

	Effects on	
	Deficit	**Total Equity**
Balance as at December 31, 2017	**₱ 375,905,558**	**₱1,073,285,670**
Effect on adoption of PFRS 9	**2,466,718**	**(2,466,718)**
	₱ 378,372,276	**₱1,070,818,952**

The application of the estimated credit losses (ECL) methodology based on the stages of impairment assessment for trade and other receivables, and advances to related parties resulted in the recognition of additional allowance for credit losses for trade and other receivables, and advances to related parties amounting ₱2,466,718 as at January 1, 2018.

PFRS 15, Revenue from Contracts with Customers. PFRS 15 supersedes PAS 11 Construction Contracts, PAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized in accordance with that core principle by applying the following steps: (a) identify the contracts with customers; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; and (e) recognize revenue when the entity satisfies a performance obligation. PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the framework to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

On February 14, 2018, the Philippine Interpretations Committee (PIC) issued PIC Q&A 2018-12 which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. Subsequently on October 29, 2018, the Philippine SEC issued SEC Memorandum Circular No. 14 Series of 2018 (the Memorandum) which provides relief to the real estate industry by deferring the application of the following provisions of the PIC Q&A No. 2018-12 for a period of three years until December 31, 2020:

a. Exclusion of land and uninstalled materials in the determination of percentage-of-completion (POC) discussed in PIC Q&A No. 2018-12-E
b. Accounting for significant financing component discussed in PIC Q&A 2018-12-D
c. Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H.

Under SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14:*PFRS 15 – Accounting for Cancellation of Real Estate Sales* was also deferred until December 31, 2020.

The Memorandum also provided the mandatory disclosure requirements should the real estate company decided to avail of any relief. Disclosures should include:

- The accounting policies applied.
- Discussion of the deferral of the subject implementation issues in the PIC Q&A.
- Qualitative discussion of the impact to the financial statements had the concerned application guideline in the PIC Q&A has been adopted.
- Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

Except for the CUSA charges discussed under PIC Q&A No. 2018-12-H which applies to leasing transactions, the above deferral will only be applicable for real estate sales transactions.

This deferral will only be applicable for real estate sales transactions. Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Group availed of the deferral of adoption of the above specific provisions of PIC Q&As. 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 POC 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 real estate sales in 2018. This would result to the land portion of sold inventories together with connection fees, to be treated as contract fulfillment assets.

- The mismatch between POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell (CTS) would constitute a significant financing component. Interest income would have been recognized for contact assets and interest expense for contract liabilities using effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue form real estate sales in 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.

- Upon sales cancellation, the repossessed inventory would be recorded at fair value plus cost to repossess (or fair value less cost to reposses if this would have been opted). This would have increased retained earnings as at January 1, 2018 and gain from repossession in 2018. Currently, the Group records the repossessed inventory at its original carrying amount and recognizes any difference between the carrying amount of the derecognized receivable and the repossess property in profit or loss.

Annual Improvements to PFRS 2014-2016 Cycle

The Annual Improvements to PFRS 2014-2016 Cycle sets out the amendments to PFRS 1, PFRS 12 and PAS 28. The amendment to PFRS 12 is effective on January 1, 2017.

PFRS 1 (Amendment), First-time Adoption of PFRS – Deletion of Short-term Exemptions for First-time Adopters. The amendment deleted some short-term exemptions for first-time adopters and the related effective date paragraphs as the reliefs provided were no longer applicable and had been available to entities only for reporting periods that had passed.

PAS 28 (Amendment), Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value. The amendment clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The above improvements have no impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

PAS 40 (Amendments), Investment Property – Transfers of Investment Property. The amendments clarify that to transfer to, or from, investment properties there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred. The application of the amendments provides two options for transition: (a) An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments; or (b) retrospective application if, and only if, that is possible without the use of hindsight.

The amendments have no material impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

PFRS 2 (Amendments), Share-based Payment – Classification and Measurement of Share-based Payment Transactions. The amendments address the: (a) accounting for modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash-settled to equity-settled; (b) accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; and (c) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations.

The amendments have no impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

PFRS 4 (Amendments), Insurance Contracts – Applying PFRS 9 Financial Instruments and PFRS 4 Insurance Contracts. The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4: (a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach"); and (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the "deferral approach"). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity would apply the overlay approach retrospectively to designated financial assets, when it first applies PFRS 9. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018.

The amendments have no impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration. This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The interpretation does not have any impact on the Group's consolidated financial statements.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2018

Standards issued but not yet effective up to the date of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

Annual Improvements to PFRS 2015-2017 Cycle

The annual improvements addressed the following issues:

PFRS 3 (Amendments), Business Combinations – Previously Held Interest in a Joint Operation. The amendments provides additional guidance to clarify that, when obtaining control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition-date fair value.

PFRS 11 (Amendments), Joint Arrangements – Previously Held Interest in a Joint Operation. The amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure its previously held interests.

PAS 12 (Amendments), Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

PAS 23 (Amendments), Borrowing Costs – Borrowing Costs Eligible for Capitalization. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The above improvements are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The application of the above improvements will have no significant impact on the disclosures and amounts recognized on the Group’s consolidated financial statements.

PAS 19 (Amendments), Employee Benefits – Plan Amendment, Curtailment or Settlement, The amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. The amendments also clarify how the requirements on accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The amendments will not have a significant impact on the disclosures and amounts recognized on the Group’s consolidated financial statements.

PAS 28 (Amendments), Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures. The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are effective for annual periods beginning on or after January 1, 2019 and shall be applied retrospectively. However, early application of these amendments is permitted.

The amendments will not have a significant impact on the disclosures and amounts recognized on the Group’s consolidated financial statements.

PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation. This addresses the concerns about how PFRS 9 classifies particular prepayable financial assets. The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The amendments will not have a significant impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments. This interpretation addresses how to apply the recognition and measurement requirements of PAS 12 Income Taxes when there is uncertainty over income tax treatments. This interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The interpretation will have no significant impact on the Group's consolidated financial statements.

PFRS 16, Leases. This new standard introduces a single lessee accounting model to be applied to all leases, whilst substantially carries forward the lessor accounting requirements in PAS 17 Leases. Lessees recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value. Whereas, lessors continue to classify leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

The adoption of the new standard will result in recognition of an asset for the right to use the underlying asset over the lease term and a lease liability for the obligation to make lease payments in the consolidated statements of financial position. In addition, this will result in recognition of depreciation on the right-of-use asset and interest on lease liability in the consolidated statements of comprehensive income, and presentation of the total amount of cash paid into a principal portion and interest within financing activities in the consolidated statements of cash flows.

PAS 1 (Amendments), Presentation of Financial Statements and PAS 8 (Amendments), Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material. The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

The amendments will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

PFRS 3 (Amendments), Business Combinations – Definition of a Business. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It narrows the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. In addition, it provides guidance and illustrative examples to help entities assess whether a substantive process has been acquired and remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

The amendments will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

PFRS 17, Insurance Contracts. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, including reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

The new standard will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

Determination of Fair Value and Fair Value Hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value measurement disclosures of financial and non-financial assets are presented in Note 32 of the consolidated financial statements.

"Day 1" difference

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Instruments

Initial Recognition, Measurement and Classification

The Group recognizes financial assets and financial liabilities in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Financial assets and financial liabilities are recognized initially at fair value including transaction costs, except for those financial assets and liabilities at FVPL where the transaction costs are charged to expense in the period incurred.

The Group classifies its financial assets as subsequently measured at amortized cost and fair value through other comprehensive income (FVOCI) and FVPL.

The classification of debt instruments at amortized cost or at FVOCI depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing the financial assets. The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information.

Upon initial recognition, the Group may make an irrevocable election to present in other comprehensive income the changes in the fair value of an equity instrument that is not held for trading. The classification is determined on an instrument-by-instrument basis.

The Group classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

The Group does not have any financial instruments that are measured and classified at FVPL.

Financial assets at amortized cost

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortized cost are subsequently measured using the effective interest method less allowance for impairment. Gains and losses are recognized in the consolidated statements of comprehensive income when the financial assets at amortized cost are derecognized, modified or impaired. These financial assets are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2018 and 2017, included under financial assets at amortized cost are the Group's cash, trade and other receivables, advances to related parties and other noncurrent assets (see Notes 4, 5, 11 and 22).

Cash represents cash on hand and cash in banks. Cash in banks earn interest at respective bank deposit rate.

Trade and other receivables consist of installment contract receivables, advances to homeowners, advances to employees, receivables from contractors, and others.

Other noncurrent assets consists of refundable deposit

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gain or loss being recognized in other comprehensive income as 'Unrealized fair value gain (loss) on AFS financial asset', net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed or determined to be impaired, the cumulative gains or losses recognized in other comprehensive income is reclassified from equity to the statements of comprehensive income as reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the consolidated statements of comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial assets previously recognized in the consolidated statements of comprehensive income.

Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on investments are recognized in the consolidated statements of comprehensive income when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within twelve (12) months from the end of reporting period.

The Group's AFS financial assets include investment in unquoted shares of stocks which is stated at cost less impairment since there is no quoted price in an active market as at December 31, 2017 (see Note 8).

Equity instruments designated at FVOCI

When the equity instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings. Dividends on such investments are recognized in profit or loss when the right of payment has been established, except when the dividends represent a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment. These financial assets are classified as noncurrent assets.

As at December 31, 2018, the Group elected to classify irrevocably its unquoted equity investments under this category (see Note 8).

Financial liabilities at amortized cost

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading, or designated as at FVPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

As at December 31, 2018 and 2017, included in financial liabilities at amortized cost are the Group's accounts payable and other liabilities, borrowings, retention payable and refundable bonds, and advances from related parties (see Notes 12, 13, 15 and 22).

Accounts payable and other liabilities

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other liabilities include non-trade payables (mainly payable to government agencies), accrued expenses and other payables which composed of collections from customers for payment of retitling and property taxes.

Retention payable and refundable bonds

Retention payable pertains to ten percent (10%) of each progress payment retained by the Group until full completion of the contract while refundable bonds is equivalent to ten percent (10%) of the contract price covering a period of one (1) year after the final completion of contracted jobs.

Advances from related parties

Advances from related parties pertain to various cash advances for working capital and expenses initially shouldered by the related parties.

Borrowings and Borrowing Cost

(a) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method. Difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(b) Borrowing cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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.

All other borrowing costs are recognized as expenses in the Group’s consolidated statements of comprehensive income in the period incurred.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Group consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derecognition of Financial Instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Group consolidated statements of comprehensive income.

Impairment of Financial Assets

The Group recognizes an allowance for expected credit losses (ECL) for all debt instruments that are measured at amortized cost or at FVOCI and trade receivables. ECL are a probability-weighted estimate of credit losses over the expected life of the financial asset.

Credit losses are the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group assesses at each end of the reporting period whether the credit risk on a financial asset has increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to the lifetime ECL. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve (12) months after the reporting period.

For trade and other receivables, and advances to related parties, the Group applies a simplified approach and general approach, respectively, in calculating ECL. The Group recognizes a loss allowance based on lifetime ECL at the end of each reporting period. The ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate.

When the credit risk on financial instruments for which lifetime ECLs have been recognized subsequently improves, and the requirement for recognizing lifetime ECLs is no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting period, except for assets for which simplified approach was used.

The Group recognizes impairment loss (reversals) in proft or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the consolidated statements of financial position.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considers the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than one (1) day past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition of the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of investment grade in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of performing. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than one (1) year past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concessions that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over five (5) year past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Real Estate Inventories

Real estate inventories are property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

On initial recognition, real estate inventories are measured at cost which includes cost of land, amounts paid to contractors for construction, borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs during the construction period.

Real estate inventories are subsequently carried at lower of cost and net realizable value. The cost of real estate inventories as disclosed in the consolidated statements of financial position is determined using the specific identification and cost allocation for non-specific cost. Net realizable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs to completion and the estimated costs of sale.

When the net realizable value of the real estate inventories is lower than costs, the Group provides for an allowance for the decline in the value and recognizes the write-down as an expense in the consolidated statements of comprehensive income. The amount of any reversal of write-down of real estate inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of real estate inventories recognized as an expense in the period in which the reversal occurs.

The cost of inventory recognized in the consolidated statements of comprehensive income on disposal is determined with reference to the specific costs incurred on the property sold.

Prepayments and Other Current Assets

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises prepaid taxes and licenses, prepaid rentals, prepaid insurance, prepaid office supplies, creditable withholding tax and input tax. Prepaid taxes and licenses, rentals, insurance and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statements of comprehensive income when incurred. Prepayments that are expected to be realized within twelve (12) months after the reporting date are classified as current asset, otherwise, these are classified as other noncurrent asset.

Prepayments are initially recognized at cost and subsequently measured at cost less any utilized portion and impairment loss. Prepayments are derecognized upon consumption and usage. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

Input Tax and Other Prepaid Taxes

Input tax is the indirect tax paid by the Group on the local purchase of goods or services from a VAT-registered person. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized.

The Group’s input tax and other prepaid taxes are stated at cost less provision for impairment, if any. Allowance for unrecoverable input tax and other prepaid taxes, if any, are maintained by the Group at a level considered adequate to provide for potential uncollectible portion of the claims.

The Group, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment losses.

Interest in Joint Operations

The Group has entered into various jointly controlled operations. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Group undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the PFRS applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the consolidated financial statements only to the extent of other parties' interests in the joint operation.

When an entity transacts with a joint operation in which entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

Property and Equipment

Property and equipment are tangible assets that are held for use in production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property and equipment are initially recognized at cost which comprises its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location necessary for it to be capable of operating in the manner intended by management.

Property and equipment account are subsequently carried at cost less accumulated depreciation and any impairment in value.

Expenses that provide incremental future economic benefits to the Group are added to the carrying amount of an item of property and equipment. All other expenses are recognized in the consolidated statements of comprehensive income as incurred.

Depreciation of property and equipment commences once the property and equipment are available for use and computed using the straight-line basis over the estimated useful life of property and equipment as follows:

	In Years
Building and improvements	25
Transportation equipment	5
Machinery, furniture and fixtures	3

The useful lives and depreciation method are reviewed annually to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. Fully depreciated and amortized property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

Investment Property

Investment property is property held to earn rentals or for capital appreciation.

Land is measured initially at cost, including transaction costs. Land is subsequently measured at cost less any impairment in value.

Expenses that provide incremental future economic benefits to the Group are added to the carrying amount of an item of investment property. All other expenses are recognized in the consolidated statements of comprehensive income as incurred.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal.

Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of comprehensive income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If 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.

Impairment of Non-financial Assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Capital stock represents the par value of the shares that are issued and outstanding as at the reporting date.

Deficit includes all current and prior period results of operations as disclosed in the consolidated statements of comprehensive income.

Revenue Recognition

The Group recognizes revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Group’s activities.

Revenue is recognized when control of the goods or services are transferred to customer at an amount that reflects the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue is shown net of value-added tax and discounts.

The additional specific recognition criteria for each type of revenue are as follows:

Real estate sales

Revenues from transactions covering sales of real estate which include sales of residential houses, condominium units and developed lots are accounted for under the percentage-of-completion method. Percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligation under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary state, and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Gain from sales of virtually completed residential lots and housing units, where sufficient down payment has been received and when collectability of the sales price is reasonably assured, is accounted for under the full accrual method. Otherwise, the percentage-of-completion method is used where gain from sales of the completed projects is initially deferred and classified under ‘Deferred gross profit’ in the consolidated statements of financial position. Deferred gross profit is realized and transferred to the consolidated statements of comprehensive income based on the percentage-of-completion of the projects.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are classified as ‘Customers’ deposits’ account in the “Liabilities” section of the consolidated statements of financial position.

Finance income

Interest and other financial income are recognized on time proportion basis that takes into account the effective yield on the asset or effective interest rate.

Miscellaneous income

Miscellaneous income is recognized when the right to receive cash from services provided is established.

Cost and Expense Recognition

Cost and expenses are recognized in the consolidated statements of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses in the consolidated statements of comprehensive income are presented using the functional method.

Cost of real estate sold

Cost of real estate sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the contractors and technical staff of the Group. The estimated expenditures works the full development of sold real estate property, as determined by the technical staff of the Group, are charged to the 'Cost of real estate sold'.

The Group recognizes the effect of revisions in the total project costs in the year these changes become known.

Operating expenses

Operating expenses are recognized in the consolidated statements of comprehensive income upon utilization of the service or at the date they are incurred. All finance costs are reported in the consolidated statements of comprehensive income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, on an accrual basis.

Income Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws in the period the temporary difference are expected to be recovered or settled that have been enacted or substantively enacted as at reporting period.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee Benefits

Short-term employee benefits

The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before twelve (12) months after the end of the reporting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement benefits obligation

The Group operates a defined benefit retirement plan. The retirement plan is generally funded through payments to a trustee bank determined by periodic actuarial calculations. A defined benefit plan is a retirement plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The net defined benefit liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method. Defined benefit costs comprise service cost, net interest on the net defined benefit liability and remeasurements of net defined benefit liability.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. Past service costs are recognized immediately in profit or loss. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability is the change during the period in the net defined benefit liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability. Net interest on the net defined benefit liability is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses and return on plan assets (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Leases

Leases wherein the lessor substantially transfers to the Group all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as assets and liabilities in the consolidated statements of financial position at amounts equal at the inception of the lease to the fair value of the leased property, or if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in the consolidated statements of comprehensive income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Group is a party to an operating lease of its office spaces as a lessee. Payments paid to the lessor under operating leases (net of any incentives given by the lessor) are charged to the consolidated statements of comprehensive income.

Related Party Relationship and Transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Related party relationship exists when: (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity; and (b) when any of the following conditions apply: (i) the entity and the reporting entity are members of the same group; (ii) one entity is an associate or joint venture of the other entity; (iii) both entities are joint ventures of the same third party; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party; (v) the entity is a post-employment benefit plan for the benefit of employees of the reporting entity; (vi) the entity is controlled or jointly controlled by a person as identified in (a) above; (vii) the entity or any member of a group of which it is part, provides key management personnel services to the reporting entity or to the parent of the reporting entity; (viii) a person identified in (a) above has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

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

Segment Reporting

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Operating segments are reported on the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 26.

Basic Earnings Per Share (EPS)

Basic earnings per share is calculated by dividing the net income by the weighted average number of common shares outstanding during the year.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statements of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Events After the Reporting Date

The Group identifies post year-end events as events that occurred after the reporting date but before the date when the consolidated financial statements were authorized for issue. Post year-end events that provide additional information about the Group's position as at the reporting date (adjusting events) are reflected in the Group consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the Group consolidated financial statements when material.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, AND ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in compliance with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

Estimates and judgments 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.

Significant Accounting Judgments in Applying the Group's Accounting Policies

Interest in Joint Operation and Real Estate Inventories

The Group has entered into Joint Venture Agreement with related parties for the development of real estate properties, whereby the Group acts as Developer. The following guidance was set by the Group to distinguish investment in joint venture from real estate inventories:

- Interest in joint venture involves the assets and other resources of each venturers. Each venturer uses its own property and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations.
- Real estate inventories comprise properties that are held for sale in the ordinary course of business.

The Group's interest in joint venture represents cost incurred to develop and sell the real estate properties contributed by co-venturers, in the Group's ordinary course of business. Accordingly, the Group accounted its share in the joint venture as real estate inventories.

Operating Lease Commitments

The Group has entered into contract of lease for the office spaces it occupies. The Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Group considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Group accordingly accounted for these as operating leases.

Operating Segments

The Group's operating business segment are organized and managed separately according to location of business activities. The Group classifies business segments based on location of its real property projects as in the different geographical areas. Management considers the performance in Metro Manila, Cebu, Iloilo and Davao as its operating business segment (see Note 26).

Impairment of Non-Financial Assets

Investment property and property and equipment, are periodically reviewed to determine any indications of impairment. Though the management believes that the assumptions used in the estimation of fair values are reasonable and appropriate, significant changes in these assumptions may materially affect the assessment of the recoverable amounts and any resulting impairment loss could have a material adverse effect in the results of operations.

Based on the impairment review of the investment property and property and equipment, the Group believes that there is no indication that an impairment loss has occurred as at December 31, 2018 and 2017.

Provisions and Contingencies

Estimate of the probable costs for the resolution of possible claims are being developed in consultation with outside counsel handling the Group's defense in these matters and are based upon analysis of potential results. The Group is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Group's management and legal counsel believe that the eventual settlement of these liabilities under these lawsuits or claims, if any, will not have a material impact on the consolidated financial statements. Accordingly, no provision for probable losses arising from contingencies was recognized in the consolidated financial statements as at December 31, 2018 and 2017.

Significant Accounting Estimates and Assumptions

Revenue and Cost Recognition

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from sale of real estate inventories recognized based on percentage-of-completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. Realized gross profit amounted to ₱125,583,129, ₱158,198,762 and ₱69,960,774 for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 16).

Estimating allowance for ECL

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

The provision matrix is based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables, and advances to related parties are disclosed in Note 30.

The carrying amount of the Group's trade and other receivables, and advances to related parties amounted to ₱858,590,188 and ₱840,928,059 as at December 31, 2018 and 2017, respectively (see Notes 5 and 22).

Allowance for ECLs recognized in the Group's statements of financial position amounted to ₱29,904,654 and ₱41,575,559 as at December 31, 2018 and 2017, respectively (see Notes 5 and 22).

Estimating Useful Lives of Assets

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment 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. In addition, estimation is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property equipment would increase recorded operating expenses and decrease noncurrent assets.

The carrying value of property and equipment as at December 31, 2018 and 2017 amounted to ₱42,954,558 and ₱42,584,820, respectively (see Note 10).

Deferred Tax Assets

The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets 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.

The Group's deferred tax assets, net of unrecognized deferred tax asset, as at December 31, 2018 and 2017 amounted to ₱3,779,843 and ₱10,704,027, respectively (see Note 24).

Retirement Benefits Obligation

The determination of the Group's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. The assumptions shown in Note 25 to the consolidated financial statements include among others, discount rates and rates of salary increase. While the Group believes that the assumptions made in the determination of retirement benefits are reasonable, significant change in assumptions materially affect the retirement obligation.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and assumptions 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.

The Group's retirement benefits obligation as at December 31, 2018 and 2017 amounted to ₱7,785,795 and ₱6,005,493, respectively (see Note 25).

4. CASH

Cash as at December 31 consist of:

	2018	2017
Cash on hand	**₱ 108,446**	₱ 88,446
Cash in banks	**18,428,199**	13,299,540
	₱ 18,536,645	₱ 13,387,986

Cash in banks generally earn interest based on daily bank deposit rates ranging from 0.125% to 0.25% per annum in 2018 and 2017.

Interest income earned from cash in banks amounted to ₱18,446, ₱18,712 and ₱8,271 in 2018, 2017 and 2016, respectively, and is recognized as part of 'Other income' in the consolidated statements of comprehensive income (see Note 20).

There is no restriction on the Group's cash in banks as at December 31, 2018 and 2017.

5. TRADE AND OTHER RECEIVABLES (net)

Trade and other receivables (net) as at December 31 consist of:

	2018	2017
Current		
Installment contract receivables	**₱ 535,560,064**	₱ 409,758,176
Advances to homeowners	**12,852,535**	13,269,496
Advances to employees	**7,272,729**	9,799,025
Other receivables	**4,894,804**	3,941,262
	560,580,132	436,767,959
Allowance for ECL	**(2,898,195)**	(578,494)
	₱ 557,681,937	₱ 436,189,465
Noncurrent		
Installment contract receivables from:		
External customers	**₱ 20,922,757**	₱ 52,051,936
Related parties – note 22	**4,340,519**	31,892,929
Receivable from contractors	**5,705,083**	4,812,299
	30,968,359	88,757,164
	₱ 588,650,296	₱ 524,946,629

Movements in the allowance for ECL are as follows:

Balance as at January 1, 2018, as previously reported	₱ 578,494
Effect on adoption of PFRS 9 – note 2	1,130,111
Balance as at January 1, 2018, as restated	**1,708,605**
Additional provision	**1,189,590**
Balance as at December 31, 2018	**₱ 2,898,195**

Installment contract receivables are collectible within a period of one (1) to nine (9) years, and are secured by mortgage on the property purchased by the buyer. These receivables bear interest at annual rates ranging from 18% to 21% in 2018 and 2017. Interest income earned amounted to ₱2,145,384, ₱1,601,590 and ₱1,562,299 in 2018, 2017 and 2016, respectively (see Note 20).

The Group partially finances its real estate projects through assignment of certain installment contract receivables to secure loans availed from a local financial institution. Assigned installment contract receivables as at December 31, 2018 and 2017 amounted to ₱73,736,536 and ₱50,942,157, respectively (see Note 13).

Advances to homeowners pertain to advances for the maintenance of residential subdivisions pending establishment of Homeowner's Associations.

Advances to employees are payable through salary deductions and are payable within a period of six (6) months to one (1) year.

Receivable from contractors pertain to amount recoverable from construction projects.

Other receivables consist of advances to suppliers and other miscellaneous receivables which are non-interest bearing and are collectible upon demand.

Except for the assigned installment contract receivables with a local financial institution, no other trade and other receivables as at December 31, 2018 and 2017 are held as collateral for its liabilities.

6. REAL ESTATE INVENTORIES

Real estate inventories as at December 31 consist of:

	2018	2017
At cost:		
Raw land inventory	**₱437,787,953**	₱ 499,432,492
Projects under development	**193,736,208**	88,725,280
House and lot	**20,791,132**	65,654,308
	₱652,315,293	₱ 653,812,080

Raw land inventory consists of parcels of land in the cities of Manila, Bulacan, Tagaytay, Cavite, Cebu and Iloilo.

The cost of projects under development consists of cost of land, site preparation and development, and construction cost of real estate inventories.
The Group's real estate inventories consist of:

- Pacific Grand Villas in Cebu
- Pacific Grand Townhomes also in Cebu
- Pearl of the Orient Tower (formerly The Embassy Pointe Tower) in Manila
- Chateaux Geneva and Costa Smeralda (Jaro Estates) in Iloilo
- Wellford Homes in Iloilo
- Metro Tech Industrial Park (formerly Plastic City Industrial Park) in Valenzuela

The Group has entered into joint venture agreement with related parties whereby the related parties contribute real estate properties to be developed by the Group. The following projects were undertaken through these joint venture agreements:

a) Pearl of the Orient Tower (formerly The Embassy Pointe Tower)

In 1996, the Parent Company entered into a joint venture agreement with Pearl of the Orient Realty and Development Corporation, a property developer, for the construction of office-commercial-residential condominiums. The joint venture project consists of The Embassy Pointe Tower (later renamed Pearl of the Orient Tower) located in Roxas Boulevard, Manila.

b) Chateaux Geneva

The Parent Company completed in 2005 its residential subdivision project in Iloilo called Chateaux Geneva. This project is a joint venture with Pacific Rehouse Corporation (PRC), an affiliate, by which they share on the net saleable areas of the joint venture property in accordance with their sharing agreement.

c) Metro Tech Industrial Park (formerly Plastic City Industrial Park)

In 1997, the Parent Company also entered into a joint venture agreement with its related parties, Inland Container Corporation, International Polymer Corporation, Kennex Container Corporation, Pacific Rehouse Corporation, Rexlon Industrial Corporation and Ropeman International Corporation, for the development of a certain real estate property into an industrial estate for a developer's fee of equivalent to forty percent (40%) of the net sales proceeds after deducting all relevant taxes and marketing expenses and administrative expenses, with the remaining sixty percent (60%) to be remitted to the owners.

On November 6, 2018, the Parent Company sold portion of its acquired interest and participation rights on the above-mentioned joint venture agreement on the parcels of land with an aggregate area of 3,886 square meters to Rexlon Industrial Corporation for a consideration amounting to ₱25,259,000 and total cost amounting to ₱10,198,993 resulted in ₱15,060,000 realized gross profit in statements of comprehensive income.

The cost of inventories recognized as expense and included in 'Cost of Real Estate Sold' in the consolidated statements of comprehensive income amounted to ₱130,621,844, ₱146,684,748 and ₱28,592,799 for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 19).

Real estate inventories with a total cost of ₱13.46 million as at December 31, 2018 and 2017, were used as collateral for borrowings obtained from Luzon Development Bank in 2013 (see Note 13). Aside from the aforementioned information, no other real estate inventories as at December 31, 2018 and 2017 are held as collateral for its liabilities.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at December 31 consist of:

	2018	2017
Creditable withholding tax	**₱19,620,769**	₱ 20,291,043
Input tax	**5,645,038**	6,845,673
Prepaid expenses	**569,036**	798,621
	₱25,834,843	₱ 27,935,337

Creditable withholding tax pertains to the excess of taxes withheld at source by the Group's customers against the current income tax due which can be claimed against income tax for future periods.

Prepaid expenses pertain to prepaid insurance, rental, taxes and licenses, and office supplies.

8. FINANCIAL ASSET AT FVOCI

In 2017, the Group acquired an investment in unquoted shares of stock in Waterfront Manila Premier Development, Inc. amounting to ₱12,500,000. The investment is classified available-for-sale as the equity investment is not held for trading. The AFS financial asset approximates its carrying amounts as at reporting dates.

In 2018, the Group changed the classification and measurement of the financial asset amounting to ₱12,500,000 to financial asset at FVOCI.

9. INVESTMENT PROPERTY

The Group's investment property pertains to the remaining ninety-one (91) hectares of land located in Davao which was not covered by the Comprehensive Agrarian Reform Law amounting to ₱1,072,016 as at December 31, 2018 and 2017.

Investment property is held primarily for capital appreciation and is carried at cost.

No direct operating expenses arose on the investment property for the years ended December 31, 2018, 2017 and 2016.

The Group's investment property as at December 31, 2018 and 2017 is not held as collateral for its liabilities and are free from any encumbrances and the Group believes that there is no indication that an impairment loss has occurred on its investment property as at December 31, 2018 and 2017.

No valuation of independent appraiser was conducted for the investment property. The fair value of the land was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The fair value of investment property amounted to ₱240,240,000 and ₱109,200,000 as at December 31, 2018 and 2017, respectively.

There is no existence of restrictions on the realizability of the investment property as at December 31, 2018 and 2017.

The Group has not entered into any contractual commitments to purchase, construct or develop investment property as at December 31, 2018 and 2017.

10. PROPERTY AND EQUIPMENT (net)

Reconciliation of the Group's property and equipment (net) as at December 31 is as follows:

December 31, 2018	**Building and improvements**	**Transportation equipment**	**Machinery, furniture and fixtures**	**Total**
Cost				
At beginning of year	**₱ 78,693,042**	**₱ 6,302,022**	**₱ 41,075,200**	**₱ 126,070,264**
Additions	**2,370,146**	**5,790**	**1,159,408**	**3,535,344**
At end of year	**81,063,188**	**6,307,812**	**42,234,608**	**129,605,608**
Accumulated depreciation				
At beginning of year	**₱ 38,301,359**	**₱ 4,797,071**	**₱ 40,387,014**	**₱ 83,485,444**
Depreciation – note 21	**2,165,255**	**440,324**	**560,027**	**3,165,606**
At end of year	**40,466,614**	**5,237,395**	**40,947,041**	**86,651,050**
Carrying amount as at December 31, 2018	**₱ 40,596,574**	**₱1,070,417**	**₱ 1,287,567**	**₱ 42,954,558**

December 31, 2017	Building and improvements	Transportation equipment	Machinery, furniture and fixtures	Total
Cost				
At beginning of year	₱ 78,693,042	₱ 5,085,686	₱ 40,375,342	₱ 124,154,070
Additions	–	1,216,336	699,858	1,916,194
At end of year	78,693,042	6,302,022	41,075,200	126,070,264
Accumulated depreciation				
At beginning of year	₱ 35,916,234	₱ 4,366,469	₱ 39,818,177	₱ 80,100,880
Depreciation – note 21	2,385,125	430,602	568,837	3,384,564
At end of year	38,301,359	4,797,071	40,387,014	83,485,444
Carrying amount as at December 31, 2017	₱ 40,391,683	₱ 1,504,951	₱ 688,186	₱ 42,584,820

Fully depreciated property and equipment still in use as at December 31, 2018 and 2017 amounted to ₱56,235,127 and ₱43,776,615, respectively.

The Group's transportation equipment with a carrying amount of ₱937,202 and ₱1,176,054 was held as collateral on its borrowings as at December 31, 2018 and 2017, respectively (see Note 13). Aside from the foregoing, the Group's property and equipment as at December 31, 2018 and 2017 are not held as collateral for its liabilities and are free from any encumbrances.

Based on the impairment review of the property and equipment, the Group believes that there is no indication that an impairment loss had occurred as at December 31, 2018 and 2017.

11. OTHER NONCURRENT ASSETS

Other noncurrent assets as at December 31 consist of:

	2018	2017
Refundable deposits – note 27	**₱ 6,547,703**	₱ 6,405,096
Other assets	**593,463**	243,463
	₱ 7,141,166	₱ 6,648,559

Refundable deposits consist mainly of security and utility deposits.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as at December 31 consist of:

	2018	2017
Accounts payable	**₱ 16,553,545**	₱ 19,666,916
Deferred output VAT and other taxes payable	**34,774,856**	24,430,992
Accrued expenses	**5,678,412**	5,785,032
Other payables	**16,370,578**	15,941,054
	₱ 73,377,391	₱ 65,823,994

Accounts payable pertains to the amount due to suppliers payable within thirty (30) to ninety (90) days from the date of purchase and do not bear any interest.

Deferred output VAT arises from the Group's installment contracts, the collections on which did not reach 25% of the contract price at the time the sale was recognized. Other taxes payable pertains to withholding taxes payable and statutory contributions to SSS, PHIC and HDMF.

Accrued expenses pertain to security services, professional fees and utilities.

Other payables composed mainly of collections from customers for payment of retitling and property tax.

13. BORROWINGS

Borrowings as at December 31 consist of:

	2018	2017
Current	**₱ 85,552,116**	₱ 58,980,789
Noncurrent	**27,645,379**	52,321,666
	₱ 113,197,495	₱ 111,302,455

The details of borrowings of the Group are as follows:

Bank/ Lender	Outstanding balance 2018	2017	Loan type and significant terms
Luzon Development Bank	**₱ 61,303,291**	₱67,896,171	Notes payable were obtained for working capital requirements. The notes carry interest rate of 10% p.a. and payable in 6 years, with interest payable monthly in advance. The loan is secured by real estate inventories with a total cost of ₱13.46 million (see Note 6).
Central Visayas Financial Corporation	**33,148,788**	42,472,266	Borrowings represent selling of installment contracts receivables by virtue of various contracts to sell for a consideration of ₱73,736,536 and ₱50,942,157 for the years ended December 31, 2018 and 2017, respectively (see Note 5).
Asia United Bank	**601,339**	934,018	Note payable amounting to ₱1,072,000 is secured by chattel mortgage with a total cost of ₱1,216,336 and carrying value amounting to ₱937,202 and ₱1,176,054 as at December 31, 2018 and 2017, respectively (see Note 10). The note carries interest rate of 10.25% and payable in 36 months.
Home Development Mutual Fund	**12,104,826**	–	Promissory note represents House Construction Financing Line payable within twelve (12) months from date of initial drawdown with maturity for subsequent drawdowns shall be the same date as that of initial drawdown. The note carries an interest rate of 6.125% p.a. and shall be paid quarterly.
Qwick	**6,039,251**	–	Borrowings represent selling of installment contracts receivables by virtue of various contracts to sell for a consideration of ₱6,052,908 as at December 31, 2018.
	₱ 113,197,495	₱ 111,302,455	

Total interest on borrowings charged as “Finance costs” in the consolidated statements of comprehensive income amounted to ₱13,517,163, ₱13,400,827 and ₱11,783,857 for the years ended December 31, 2018, 2017 and 2016, respectively.

The table below shows the movement of borrowings during the year:

	2018	2017
Beginning balance	**₱ 111,302,455**	₱ 78,335,423
Additions	**78,989,229**	85,942,157
Payments	**(77,094,189)**	(52,975,125)
Ending balance	**₱ 113,197,495**	₱ 111,302,455

The Group's borrowings are not subject to any significant loan covenant.

14. CUSTOMERS' DEPOSITS

Customers' deposits represent reservation fees and initial collections received from the customers before the two parties enter into a sales agreement for the sale transaction. These were payments from buyers which had not reached the minimum required percentage. When the level of required percentage or threshold to qualify for revenue recognition is reached by the buyer, these deposits and down payments will be recognized as revenue and will be applied against the installment contract receivables balance.

As at December 31, 2018 and 2017, outstanding balance of the customers' deposits amounted to ₱5,759,604 and ₱7,309,856, respectively.

15. RETENTION PAYABLE AND REFUNDABLE BONDS

Retention payable and refundable bonds as at December 31 consist of:

	2018	2017
Retention payable	**₱ 14,727,927**	₱ 14,289,648
Refundable bonds	**9,716,481**	9,352,031
	₱ 24,444,408	₱ 23,641,679

Retention payable pertains to ten percent (10%) of each progress payment retained by the Group until full completion of the contract. The full amount of retention will be released by the Group to the contractors after the full completion and acceptance of satisfactory works by the Group and submission of the original, signed and sealed sets of prints of "As-built" drawings and Refundable Bond equivalent to ten percent (10%) of the contract amount.

The refundable bond equivalent to ten percent (10%) of the contract price covering a period of one (1) year after the final completion of contracted jobs to answer for faulty and/or defective materials or workmanship was also recognized and recorded as retention payable.

16. DEFERRED GROSS PROFIT

This account represents the difference between the contract price and the estimated cost of real estate projects sold which are not yet completed as at financial reporting date and to be realized thereafter based on the percentage-of-completion of the real estate inventories sold.

As at December 31, 2018 and 2017, deferred gross profit amounted to ₱142,196,397 and ₱106,919,701, respectively. Realized gross profit for current and prior year sales amounted to ₱125,583,129, ₱158,198,762 and ₱69,960,774 in 2018, 2017 and 2016, respectively.

17. CAPITAL STOCK

Details of capital stock as at December 31 are as follows:

	2018	2017
Common stock:₱1 par value		
Authorized: 5,000,000,000 shares	**₱5,000,000,000**	₱5,000,000,000
Subscribed, issued and fully paid: 1,445,549,830 shares	**1,445,549,830**	1,445,549,830

The Group has one (1) class of common shares which carry no right to fixed income.

Track Record of Registration of Securities

The Parent Company was originally registered as Philippine Cocoa Estates Corporation with the SEC on May 30, 1983 with an authorized capital stock of ₱1 million primarily to engage in all phases of agriculture. On February 29, 1984, the Group increased its authorized capital stock to ₱140 million. The Group was listed with the PSE on November 1, 1984.

On May 8, 1987, the Parent Company with the approval of SEC increased its authorized capital stock to ₱180 million and on October 22, 1987, increased to ₱300 million.

In 1996, The Wellex Group, Inc. (TWGI) gained majority control of the Group and revamped its management. The new management opted for a change in business focus from agriculture to real estate, with the corporate vision of becoming a world-class real estate developer.

To align the Group to this new corporate vision, management applied with the SEC for approval to carry out certain strategic corporate changes. Thus, on May 16, 1996, SEC approved the proposed changes, namely: (a) the change in the primary purpose clause from agriculture to the business of holding and developing real estate; (b) the change in the corporate name to reflect the new business focus; (c) the removal of the Class "A" and Class "B" classification of the Group's shares; and (d) the change in par value of the shares from ₱10 to ₱1 per share.

Towards achieving its corporate vision, the Parent Company filed an application to increase its authorized capital stock from ₱300 million to ₱5 billion. Out of this increase of ₱4.7 billion, the amount of ₱1,194,333,800 was subscribed and paid up by five (5) corporate investors. The principal part of the subscription was paid up by way of transfers to the Group of forty five (45) parcels of land valued at ₱1,161,833,800, while a smaller portion of the subscription, amounting to ₱32,500,000 was paid through conversion of debt to equity. The increase in authorized capital stock to ₱5 billion was approved by SEC on March 26, 1997.

Number of shares owned by public totaled 759,980,740 shares or a public ownership of 52.57% as at December 31, 2018 and 2017, respectively.

The historical market value of the Group's shares is as follows:

	Market value per share
December 31, 2018	**₱ 0.47**
December 31, 2017	0.355
December 31, 2016	0.280

18. REAL ESTATE SALES

Real estate sales for the years ended December 31 on the various projects are as follows:

	2018	2017	2016
Lot	**₱ 82,024,195**	₱127,560,589	₱ 46,940,567
House and lot	**224,888,210**	243,401,178	22,561,782
	₱ 306,912,405	₱ 370,961,767	₱ 69,502,349

19. COST OF REAL ESTATE SOLD

Cost of real estate sold for the years ended December 31 is as follows:

	2018	2017	2016
Lot	**₱ 26,896,892**	₱ 37,837,238	₱ 20,474,774
House and lot	**103,724,952**	108,847,510	8,118,025
	₱130,621,844	₱ 146,684,748	₱ 28,592,799

20. OTHER INCOME

Details of other income for the years ended December 31 are as follows:

	2018	2017	2016
Recovery of allowance for ECL	**₱ 14,137,623**	₱ –	₱ 2,384,888
Finance income from:			
Advances to affiliates – note 22	**6,483,615**	6,967,952	6,994,594
Installment contract receivables – note 5	**2,145,384**	1,601,590	1,562,299
Cash in banks – note 4	**18,446**	18,712	8,271
Miscellaneous income	**4,634,956**	851,105	829,486
	₱ 27,420,024	₱ 9,439,359	₱ 11,779,538

Miscellaneous income mainly consists of forfeited customer's deposits and penalty charge for late payment on monthly amortization.

21. OPERATING EXPENSES

Operating expenses for the years ended December 31 are as follows:

	2018	2017	2016
Loss on cancelled contracts	**₱27,905,574**	₱32,248,713	₱1,732,014
Salaries and wages	**20,910,118**	19,751,395	16,711,935
Commissions	**14,962,215**	7,981,567	4,944,304
Taxes and licenses	**9,959,127**	3,221,498	3,828,559
Representation and entertainment	**5,871,357**	1,443,552	348,561
Advertising	**3,641,279**	5,028,241	1,798,275
Depreciation - note 10	**3,165,606**	3,384,564	3,437,260
Communication, light and water	**2,634,792**	2,757,379	2,040,978
Employee benefits	**2,609,324**	2,700,470	2,013,907
Travel and transportation	**1,787,698**	10,787,176	5,329,333
Professional and legal fees	**1,700,621**	2,370,538	2,413,032
Penalty fee, interests and surcharges	**1,495,666**	212,034	57,932
Retirement benefits – note 25	**1,391,987**	1,268,331	1,462,730
Supplies	**1,106,188**	1,625,888	826,804
Repairs and maintenance	**954,502**	1,924,984	486,513
Rental – note 27	**849,346**	717,703	681,167
Dues and subscription	**680,806**	698,747	669,379
Security services	**264,664**	426,067	455,382
Sports and recreation	**254,137**	1,858,918	159,879
Director fees	**150,000**	220,000	100,000
Insurance	**139,638**	80,278	235,187
Janitorial services	**119,592**	224,943	254,366
Meetings, trainings and seminars	**108,162**	40,609	88,581
Miscellaneous	**2,990,346**	4,778,389	2,886,071
	₱105,652,745	₱105,751,984	₱52,962,149

Miscellaneous expense consists mainly of bank charges and notarial incurred by the Group.

22. RELATED PARTY TRANSACTIONS

The Group makes advances to and from related parties for working capital requirements and for those related to joint venture agreements and other transactions.

Details of the Group's advances to related parties for the years ended December 31, 2018 and 2017 are as follows:

December 31, 2018	At beginning of year	Additional advances/ Impairment	Accrual of interest	Collection/ application/ reversal of impairment	At end of year
Common key management					
Plastic City Corp. *(a)*	**₱ 183,932,797**	**₱ 500,000**	**₱ 3,675,235**	**(₱ 2,552,326)**	**₱ 185,555,706**
Forum Holdings Corp. *(b)*	**75,602,659**	**–**	**1,445,159**	**(40,136,436)**	**36,911,382**
Kennex Container Corp. *(b)*	**33,812,552**	**700,000**	**676,251**	**(700,000)**	**34,488,803**
Orient Pacific Corp. *(b)*	**32,710,684**	–	**472,379**		**33,183,063**
Heritage Pacific Corp. *(b)*	**19,767,564**	–	**–**	**(19,767,564)**	**–**
Noble Arch Realty and Construction *(c)*	**4,396,408**	**447,961**	**87,092**	**(274,036)**	**4,657,425**
Pacific Rehouse Corporation	–	**587,064**	–	–	**587,064**
Stockholders					
International Polymer Corp. *(b)(d)*	**6,755,831**	**1,057,250**	**127,499**	**(6,377,672)**	**1,562,908**
	356,978,495	**3,292,275**	**6,483,615**	**(69,808,034)**	**296,946,351**
Allowance for impairment	**42,333,672**	**570,846**	–	**(15,898,059)**	**27,006,459**
	₱ 314,644,823	**₱2,721,429**	**₱ 6,483,615**	**(₱ 53,909,975)**	**₱ 269,939,892**

December 31, 2017	At beginning of Year	Additional advances/ Impairment	Accrual of interest	Collection/ application/ reversal of impairment	At end of year
Common key management					
Plastic City Corp. *(a)*	₱ 180,462,367	₱ –	₱ 3,470,430	₱ –	₱ 183,932,797
Forum Holdings Corp. *(b)*	74,176,194	–	1,426,465	–	75,602,659
Kennex Container Corp. *(b)*	33,258,636	–	553,916	–	33,812,552
Orient Pacific Corp. *(b)*	32,265,044	–	445,640	–	32,710,684
Heritage Pacific Corp. *(b)*	19,394,591	–	372,973	–	19,767,564
Noble Arch Realty and Construction *(c)*	3,979,197	56,083	361,128	–	4,396,408
Bataan Polytethylene Corp.	183,232	–	–	(183,232)	–
The Wellex Group, Inc. *(d)*	22,665,360	34,802,370	335,472	(57,803,202)	–
Stockholders					
International Polymer Corp. *(b)(d)*	1,190,302	5,563,601	1,928	–	6,755,831
	367,574,923	40,422,054	6,967,952	(57,986,434)	356,978,495
Allowance for impairment	41,150,533	–	–	(153,468)	40,997,065
	₱ 326,424,390	₱ 40,422,054	₱ 6,967,952	(₱ 57,832,966)	₱ 315,981,430

Movements in the allowance for ECL are as follows:

	2018	2017
Balance at beginning of year, as previously reported	**₱ 40,997,065**	₱ 40,997,065
Effect on adoption of PFRS 9	**1,336,607**	–
Balance at beginning of year, as restated	**42,333,672**	40,997,065
Recovery during the year – note 20	**(15,327,213)**	–
	₱ 27,006,459	₱ 40,997,065

Details of the Group's advances from related parties as at December 31, 2018 and 2017 are as follows:

December 31, 2018	**At beginning of Year**	**Additional Advances from Related Parties**	**Settlement/ Reversal**	**At end of Year**
Common key management				
Waterfront Cebu City Hotel	**₱ 92,054,457**	**₱ –**	**₱ –**	**₱ 92,054,457**
Pacific Rehouse Corp.	**27,697,278**	**–**	**(27,697,278)**	**–**
Concept Moulding Corp.	**3,830,646**	**–**	**–**	**3,830,646**
Manila Pavilion	**166,530**	**–**	**–**	**166,530**
The Wellex Group, Inc.	**32,092,370**	**4,986,402**	**(30,661,818)**	**6,416,954**
	₱155,841,281	**₱ 4,986,402**	**(₱58,359,096)**	**₱102,468,587**

December 31, 2017	At beginning of Year	Additional advances from related parties	Settlement/ Reversal	At end of Year
Common key management				
Waterfront Cebu City Hotel	₱ 92,054,457	₱ –	₱ –	₱ 92,054,457
Pacific Rehouse Corp.	27,704,628	–	(7,350)	27,697,278
Concept Moulding Corp.	3,830,646	–	–	3,830,646
Manila Pavilion	166,530	–	–	166,530
The Wellex Group, Inc.	–	32,092,370	–	32,092,370
	₱123,756,261	₱ 32,092,370	(₱ 7,350)	₱155,841,281

The Group obtained noninterest-bearing and unsecured cash advances from other companies under common control to support its operations. Settlement of related party transactions occurs in cash and offsetting throughout the financial year. There have been no guarantees received for any related party payables.

a) Plastic City Corporation (PCC)

Advances to PCC represent interest bearing cash advances which bears an interest of 2% per annum. In 2009, PCC committed to pay by way of transfer of eleven (11) properties located at Metrotech Industrial Park with a total area of 21,475 sq.m. valued at ₱6,450/sq.m. The transfer, however, did not materialize in 2009 because of an impending "Lis pendens" case that was resolved with finality only on March 26, 2010. Subject properties were purchased by PCC from the Philippine National Bank (foreclosed properties) which were subject of the abovementioned case filed by Quisumbing et, al. The Supreme Court issued its final decision, in favor of PNB.

On May 2, 2011, PCC and the Group re-entered into a memorandum of agreement wherein PCC will transfer the ownership of the said properties as payment to its outstanding obligation to the Group. On December 21, 2018, PCC and Parent Company reissue a promissory note indicating an extension of term for another three (3) years, starting January 31, 2018 and will mature on January 31, 2021. As at December 31, 2018 and 2017, the outstanding advances to PCC has not been settled, the transfer of property from PNB to PCC is still pending.

b) Forum Holdings Corp. (FHC), International Polymer Corporation (IPC), Kennex Container Corp. (KCC), Orient Pacific Corporation (OPC), and Heritage Pacific Corporation (HPC)

In 2009, FHC, IPC, KCC, OPC and HPC executed respective unsecured promissory notes (PN) to cover their respective advances with a term of five (5) years, and bear interest of three percent (3%) per annum, renewable upon agreement of the parties. These PNs were renewed in 2014 with a three-year term which matured during the year at interest of two percent (2%) per annum. These cash advances are to be settled through cash payments. On December 21, 2018, FHC, KCC and OPC, and Parent Company reissued a promissory note indicating an extension of term for another three (3) years, starting January 31, 2018 and will mature on January 31, 2021.

c) Noble Arch Realty and Construction Corporation (NARCC)

In 2005, NARCC entered into a Contract to Sell with Union Bank of the Philippines involving eight (8) parcels of land located in Valenzuela City, with an aggregate area of 15,997 square meters.

For the purpose of paying the obligation arising from the abovementioned contract, NARCC sought the assistance of the Group through subsequent interest bearing cash advances.

On March 23, 2015, the properties were transferred to the Group through Deed of Absolute Sale executed by the Group and Union Bank of the Philippines.

In 2009, NARC executed respective unsecured PN to cover their respective advances to the Group with a term of five (5) years, and bear interest of three percent (2%) per annum, renewable upon agreement of the parties. These PN was renewed in 2014 with a three-year term which matured during the year at interest of two percent (2%) per annum. These cash advances are to be settled through cash payments. On December 21, 2018, NARC and Parent Company reissued a promissory note indicating an extension of term for another three (3) years, starting January 31, 2018 and will mature on January 31, 2021.

d) Installment contract receivables from TWGI and IPC

In addition to the advances made to related parties, the Group also has unsecured and unguaranteed installment contracts from related parties due beyond one (1) year as follows which are to be settled through cash (see Note 5):

	2018	2017
International Polymer Corporation	**₱ 4,340,519**	₱ 4,340,519
The Wellex Group, Inc.	**–**	27,552,410
	₱ 4,340,519	₱ 31,892,929

On February 26, 2018, the Group collected the outstanding receivable amounting to ₱27,552,410 from TWGI.

e) Remuneration of Key Management Personnel

Key management is defined as those with position of assistant manager and above who are involved in the decision making policy of the Group. The total remuneration of these personnel is as follows:

	2018	2017	2016
Short-term employee benefits	**₱ 3,817,138**	₱ 4,779,020	₱ 4,799,460
Post-employment benefits	**318,095**	396,577	436,315
Share-based payments	**–**	–	–
Other long-term benefits	**–**	–	–
	₱ 4,135,233	₱ 5,175,597	₱ 5,235,775

f) Transaction with the retirement fund

The Group has no transactions with its retirement plan other than its benefits paid in 2018.

23. MEMORANDUM OF AGREEMENT WITH AVIDA LAND CORP.

On December 17, 2012, the Group and its related parties, Plastic City Corp. (PCC), Inland Container Corp. (ICC), International Polymer Corp. (IPC), MPC Plastic Corp. (MPC), Westland Pacific Properties Corp. (WPPC), and Kennex Container Corp. (KCC) ('the Landowners'), entered into a Memorandum of Agreement (MOA) with Avida Land Corp. (ALC) for the development of 167,959 sq. meters of land located in T. Santiago St., Canumay, Valenzuela City, into residential projects based on a Master Plan determined by ALC.

Under the MOA, the Landowners shall cede, transfer and convey the property including all its rights and interest on the property. The Landowner shall execute the Deed of Conveyance for the entire or certain portions of property and transfer to ALC full vacant physical possession, free and clear of informal settlers, occupants and encumbrances as may be required in accordance with the development schedule of ALC.

In consideration for the conveyance by the Landowners of the property, the parties shall mutually agree on the value for each portion of the property. As at December 31, 2018, the major pre-requisite have been duly settled. Since the values and market considerations have greatly improved over time, the parties are reevaluating the best way to proceed with the projects.

24. INCOME TAX

Reconciliation of Income Tax Expense

The reconciliation of income before tax computed at the regular corporate income tax rate to the income tax expense as shown in the consolidated statements of comprehensive income is as follows:

	2018	2017	2016
Income before tax	**₱ 33,833,245**	₱ 48,485,310	₱ 16,994,306
Income tax computed at 30%	**10,149,974**	14,545,593	5,098,292
Tax effect of:			
Nondeductible expenses	**11,036,808**	13,564,419	564,432
Expired MCIT	**–**	1,080,975	724,476
Expired NOLCO	**5,374**	5,316	9,348,348
Nondeductible interest expense	**–**	–	1,024
Reversal of allowance for impairment loss	**(4,769,778)**	–	(715,466)
Interest income subjected to final tax	**(5,534)**	(5,614)	(2,481)
Change in unrecognized deferred tax asset	**171,629**	542	–
	₱ 16,588,473	₱ 29,191,231	₱ 15,018,625

The components of deferred tax assets and liabilities as at December 31 are as follows:

	2018	2017
Deferred tax assets		
Allowance for ECL	**₱ 8,228,726**	₱ 12,299,119
Retirement benefits obligation	**3,779,843**	3,362,247
MCIT	**–**	3,802,787
NOLCO	**–**	3,538,993
	12,008,569	23,003,146
Less: Unrecognized deferred tax asset	**(8,228,726)**	(12,299,119)
	₱ 3,779,843	₱ 10,704,027
Deferred tax liabilities		
Excess of financial realized gross profit over taxable realized gross profit	**₱ 64,258,867**	₱ 57,882,155
Remeasurement gain on retirement benefits	**1,444,105**	1,560,600
	₱ 65,702,972	₱ 59,442,755

Deferred tax assets and liabilities are determined using the income tax rates in the period the temporary differences are expected to be recovered or settled.

The component of deferred income tax recognized in other comprehensive income from actuarial gain (loss) on retirement benefits amounted to (₱116,495), ₱156,449 and ₱298,286 for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 25).

As at December 31, 2018, the Group's NOLCO that can be claimed as deduction from future taxable income follows:

Year of Incurrence	Year of Expiry	2017 Balance	Additions	Applied	**2018 Balance**
2015	2018	₱ 4,351,022	₱ –	(₱ 4,351,022)	₱ –
2016	2019	796,062	–	(796,062)	–
2017	2020	6,649,560	–	(6,649,560)	–
		₱11,796,644	₱ –	(₱11,796,644)	₱ –

As at December 31, 2018, the Group's MCIT that can be claimed as deduction from future income tax payable follows:

Year of Incurrence	Year of Expiry	2017 Balance	Additions	Applied	**2018 Balance**
2015	2018	₱ 1,271,092	₱ –	(₱ 1,271,092)	₱ –
2016	2019	1,211,682	–	(1,211,682)	–
2017	2020	1,320,013	–	(1,320,013)	–
		₱ 3,802,787	₱ –	(₱ 3,802,787)	₱ –

25. RETIREMENT BENEFITS OBLIGATION

The Group has a funded, noncontributory and tax-qualified defined benefits type of pension plan covering substantially all of its employees. The benefits are generally based on defined contribution formula with minimum lump-sum guarantee of 100% of the latest monthly salary per year of credited service.

The Group appointed a trustee bank to be responsible for the general administration of the retirement plan and retirement fund.

Actuarial valuations are made at least every one (1) to two (2) years. The Group's annual contributions to the defined benefits plan consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable. The Group's latest actuarial valuation was on December 31, 2018.

The movement in the retirement benefits obligation for the years ended December 31, 2018 and 2017 is as follows:

	Present value of retirement benefits obligation	**Fair value of plan assets**	**Net retirement benefits obligation**
January 1, 2018	**₱ 6,828,851**	**(₱ 823,358)**	**₱ 6,005,493**
Retirement expense:			
Current service costs	**1,044,746**	**–**	**1,044,746**
Interest expense (income)	**389,245**	**(42,004)**	**347,241**
	1,433,991	**(42,004)**	**1,391,987**
Benefits paid	**(172,900)**	**172,900**	**–**
Remeasurements, gross of tax:			
Actuarial loss (gain) arising from:			
Changes in financial assumptions	**(1,395,034)**	**–**	**(1,395,034)**
Experience/return	**1,733,450**	**49,899**	**1,783,349**
	338,416	**49,899**	**388,315**
As at December 31, 2018	**₱ 8,428,358**	**(₱ 642,563)**	**₱ 7,785,795**

	Present value of retirement benefits obligation	Fair value of plan assets	Net retirement benefits obligation
December 31, 2016	₱ 6,115,355	(₱ 856,696)	₱ 5,258,659
Retirement expense:			
Current service costs	985,415	–	985,415
Interest expense (income)	329,006	(46,090)	282,916
	1,314,421	(46,090)	1,268,331
Remeasurements, gross of tax:			
Actuarial loss (gain) arising from:			
Changes in financial assumptions	(220,085)	–	(220,085)
Experience/return	(380,840)	79,428	(301,412)
	(600,925)	79,428	(521,497)
December 31, 2017	₱ 6,828,851	(₱ 823,358)	₱ 6,005,493

Remeasurement gain on retirement benefits presented in the consolidated statements of financial position under equity section is as follows:

	2018	2017
Balance at beginning of year	**₱ 3,641,398**	₱ 3,276,350
Amounts recognized in OCI	**(388,315)**	521,497
	3,253,083	3,797,847
Attributable tax	**116,494**	(156,449)
Balance at end of year	**₱ 3,369,577**	₱ 3,641,398

Recognized remeasurement gain (loss), net of income (benefit from) tax expense amounted to (₱116,495), ₱156,449 and ₱298,286 (see Note 24), and in the consolidated statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016 amounted to (₱271,821), ₱365,048 and ₱696,000, respectively.

The total retirement benefits expense recognized is included in operating expenses for the years ended December 31, 2018, 2017 and 2016 amounted to ₱1,391,987, ₱1,268,331 and ₱1,462,730, respectively (see Note 21).

The fair value of the Group's retirement plan assets as at December 31 consist of:

	2018	2017
Government bonds and securities	**₱ 634,581**	₱ 812,003
Cash	**7,982**	11,355
	₱ 642,563	₱ 823,358

The Group's plan assets are managed by a trustee bank, which is authorized to determine how the funds are invested with the objective of obtaining optimal return. The fair value of the plan assets measured using the market-to-market approach. The fair value of plan assets approximates their carrying amount as at December 31, 2018 and 2017.

The actual loss on plan assets for the years ended December 31 is as follows:

	2018	2017
Interest income	**₱ 42,004**	₱ 46,090
Actual loss on plan assets, excluding amounts included in net interest cost	**(49,899)**	(79,428)
	(₱ 7,895)	(₱33,338)

The principal actuarial assumptions used at December 31 are as follows:

	2018	2017
Discount rate	**7.52%**	5.70%
Salary rate increase	**5.00%**	5.00%

The discount rate at December 31, 2018 and 2017 was based on the BVAL and PDEx (PDST-R2) benchmark market yields on government bonds as of the valuation dates (or latest available) considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

The sensitivity of the defined benefit obligation (DBO) to changes in the weighted principal assumptions is as follows:

	Impact on defined benefit obligations		
December 31, 2018	**Change in assumptions**	**Increase in assumptions**	**Decrease in assumptions**
Discount rate	**100 bps**	**Decrease by 8.5%**	**Decrease by 7.2%**
Salary increase rate	**100 bps**	**Increase by 8.6%**	**Decrease by 7.5%**

	Impact on defined benefit obligations		
December 31, 2017	Change in assumptions	Increase in assumptions	Decrease in assumptions
Discount rate	100 bps	Decrease by 10.7%	Decrease by 9.0%
Salary increase rate	100 bps	Increase by 9.6%	Decrease by 8.3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statements of financial position.

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

Through its defined benefit retirement plan, the Group is exposed to a number of risks, the most significant of which are as follows:

a) Asset volatility – The plan liabilities are calculated using a discount rate set with reference to government bonds, if plan assets underperformed this yield, this will create a deficit. Most of the assets of the plan are government bonds and securities.

b) Changes in bond yield – A decrease in government bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

The retirement plan trustee has no specific asset-liability matching strategies to manage risks between the plan assets and the plan liabilities.

The weighted average duration of the defined benefit obligation is 7.9 years in 2018 and 9.9 years in 2017.

The Group does not expect any contributions to post-employment benefit plans for the years ended December 31, 2018 and 2017, respectively.

Expected maturity analysis of undiscounted retirement benefits obligation:

2018	**Less than a year**	**Between 1-2 years**	**Between 2-5 years**	**Over 5 years**	**Total**
Retirement benefits obligation	**₱ –**	**₱887,456**	**₱5,162,345**	**₱5,861,999**	**₱11,911,800**

2017	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Retirement benefits obligation	₱ –	₱624,952	₱2,466,660	₱5,535,408	₱ 8,627,020

26. BUSINESS SEGMENT INFORMATION

The Group's operating business segment are organized and managed separately according to location of business activities. The Group's management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

However, financing which includes finance cost, impairment of assets and income taxes are managed on a group basis and are not allocated to operating segments.

The Group classifies business segments based on location of its real property projects as in the following geographical areas:

- Metro Manila – industrial park and condominium projects
- Other Luzon Areas such as Bulacan, Cavite – subdivision development
- Cebu – subdivision, mixed use and condominium projects
- Iloilo – subdivision, mixed use and condominium projects
- Davao – administrative office

Geographically, management considers the performance in Metro Manila, Cebu, Iloilo and Davao. Deferred tax assets, borrowings and retirement benefits obligation are not allocated to geographic segments.

The segment information is as follows:

December 31, 2018	Metro Manila	Cebu	Iloilo	Davao	Total
Revenue					
Realized gross profit	₱ 12,353,685	₱ 54,846,923	₱ 58,382,521	₱ –	₱ 125,583,129
Other income	21,659,774	1,749,079	1,863,850	2,147,321	27,420,024
	34,013,459	56,596,002	60,246,371	2,147,321	153,003,153
Expenses					
Depreciation	2,778,136	18,510	368,960	–	3,165,606
Loss on cancelled contracts	–	10,817,811	17,087,763	–	27,905,574
Other expenses	34,315,624	24,145,106	14,520,126	208,722	73,189,578
	37,093,760	34,981,427	31,976,849	208,722	104,260,758
Segment income (loss)	(3,080,301)	21,614,575	28,269,522	1,938,599	48,742,395
Finance cost	13,517,163	–	–	–	13,517,163
Retirement benefits expense	1,391,987	–	–	–	1,391,987
Provision for income tax	16,588,473	–	–	–	16,588,473
Net income (loss) for the year	(₱ 34,577,924)	₱ 21,614,575	₱ 28,269,522	₱ 1,938,599	₱ 17,244,772
Segment assets	₱ 647,751,859	₱ 687,542,173	₱ 277,232,159	₱ 6,418,518	₱1,618,944,709
Deferred tax assets	3,779,843	–	–	–	3,779,843
Total assets	₱ 651,531,702	₱ 687,542,173	₱ 277,232,159	₱ 6,418,518	₱1,622,724,552
Segment liabilities	₱ 188,090,286	₱ 116,423,615	₱ 108,028,420	₱ 473,020	₱ 413,015,341
Borrowings	113,197,495	–	934,018	–	114,131,513
Retirement benefits obligation	7,785,795	–	–	–	7,785,795
Total liabilities	₱309,073,576	₱ 116,423,615	₱ 108,962,438	₱ 473,020	₱ 534,932,649

December 31, 2017	Metro Manila	Cebu	Iloilo	Davao	Total
Revenue					
Realized gross profit	₱ –	₱ 67,617,275	₱ 90,581,487	₱ –	₱ 158,198,762
Other income	7,082,665	997,055	1,109,639	250,000	9,439,359
	7,082,665	68,614,330	91,691,126	250,000	167,638,121
Expenses					
Depreciation	2,754,752	531,721	98,090	–	3,384,564
Loss on cancelled contracts	–	20,250,846	11,997,867	–	32,248,713
Other expenses	32,276,158	22,716,711	13,661,133	196,374	68,850,376
	35,030,910	43,499,278	25,757,090	196,374	104,483,653
Segment income (loss)	(27,948,246)	25,115,052	65,934,036	53,626	63,154,468
Finance cost	13,323,543	43,146	34,138	–	13,400,827
Retirement benefits expense	1,268,331	–	–	–	1,268,331
Provision for income tax	29,191,231	–	–	–	29,191,231
Net income (loss) for the year	(₱ 71,731,351)	₱ 25,071,905	₱ 65,899,898	₱ 53,626	₱ 19,294,079
Segment assets	₱ 553,246,522	₱ 662,843,640	₱ 378,960,598	₱ 3,818,097	₱1,598,868,857
Deferred tax assets	10,704,027	–	–	–	10,704,027
Total assets	₱ 563,950,549	₱ 662,843,640	₱ 378,960,598	₱ 3,818,097	₱1,609,572,884
Segment liabilities	₱ 224,906,297	₱ 124,648,681	₱ 69,298,238	₱ 126,050	₱ 418,979,266
Borrowings	110,368,437	–	934,018	–	111,302,455
Retirement benefits obligation	6,005,493	–	–	–	6,005,493
Total liabilities	₱ 341,280,227	₱ 124,648,681	₱ 70,232,256	₱ 126,050	₱ 536,287,214

Although Davao segment does not meet the quantitative thresholds required by PFRS 8 for reportable segments as at December 31, 2018 and 2017, management has concluded that this segment should be reported, as it is closely monitored for potential growth that would contribute to revenue in the future.

27. LEASE COMMITMENTS

The Group has various non-cancellable office space lease agreements which are renewable upon mutual agreement with lessors as follows:

Lessor	Lease period
Arjay Realty	August 1, 2017 to August 1, 2020
Eumarc Real Estate	May 1, 2015 to June 30, 2020
Eumarc Real Estate	June 15, 2015 to June 30, 2020

The future minimum lease payments are as follows:

	2018	2017	2016
Due within 1 year	**₱ 1,279,268**	₱ 747,677	₱ 480,335
Due beyond 1 year but not more than 5 years	**2,745,129**	1,769,100	922,415
	₱ 4,024,397	₱ 2,516,777	₱ 1,402,750

The lease commitments entered into by the Group represents the lease of office spaces occupied by the branches.

Total rental expense incurred by the Group related to lease of office space amounted to ₱849,346, ₱717,703, and ₱681,167 in 2018, 2017 and 2016, respectively (see Note 21).

Total security deposit amounted to ₱6,547,703 and ₱6,405,096 as at December 31, 2018 and 2017, respectively (see Note 11).

28. CONTINGENCIES

a) Claims from expropriated property in Chateaux Geneva

In 2006, portions of Chateaux Geneva were involved in an expropriation cased filed by the government versus the Parent Company and Pacific Rehouse Corporation (PRC) for the Iloilo Flood Control Project of the Department of Public Works and Highways (DPWH).

In 2006, the court, ordered DPWH to pay an initial deposit of ₱188,313,599, based on zonal value of ₱1,800 per square meter for the area covered by the initial expropriation petition of DPWH totaling 84,925 square meters of land that was directly traversed by the Floodway plus the provisional value of improvements and/or structures amounting to ₱35,448,599. In December of the same year, the Parent Company received from DPWH the initial amount of ₱127,867,244. Immediately thereafter, on January 2007, the amount of ₱60,446,355 was also directly deposited to the bank as agreed by the parties, for a total of ₱188,313,599.

In 2007, the Parent Company remitted to PRC the amount of ₱107,368,053 as its share in the initial deposit of DPWH. In December 2007, the government filed a second expropriation case involving properties of the Parent Company and PRC adjacent to the lands covered in the first expropriation case. These properties were also affected by the same Iloilo Flood Control Project, which DPWH failed to include in the first expropriation case. For this second expropriation, there was a second (2^{nd}) portion of payment amounting to ₱11,987,520 of which ₱5,405,775 of the said amount was remitted to PRC in January 2008.

The case is under protest by the Parent Company and pending court decision. The Parent Company and PRC claimed just compensation amounting to ₱2,598,661,688 for the total land area that was expropriated, the existing improvements thereon, the affected areas for redesigning and restructuring, the professional and technical services and the necessary provisions for damages.

On December 18, 2017, the Special Nineteenth (19th) Division of the Court of Appeals Visayas issued a decision holding that the respective appeals of plaintiff-appellant Republic of the Philippines and defendants-appellants Pacific Rehouse Corporation and Philippine Estates Corporation were denied. The November 13, 2012 Decision of the Regional Trial Court, Sixth (6th) Judicial Region, branch 24, Iloilo City, in Civil Case no. 06-29100, and its May 22, 2013 Order are affirmed with modification in the amount of just compensation, which shall earn a legal interest at the rate of 12% per annum from the time of the subject properties taking until June 20, 2013 and, thereafter, or from July 1, 2013 until full payment thereof, the legal rate shall be 6% per annum.

On February 23, 2018, PRC and the Group through counsel filed a Motion for Reconsideration on the said decision.

The expropriation cases for the determination of just compensation are still ongoing as at December 31, 2018.

b) Other lawsuits and claims

The Parent Company is contingently liable for existing lawsuits and claims from third parties, arising from the ordinary course of business. Management believes that the ultimate liability for the abovementioned lawsuits and claims, if any, would not be material in relation to the financial position and operating results of the Parent Company.

29. EARNINGS PER SHARE

The following table presents information necessary to calculate the earnings per share:

	2018	2017	2016
Net income	**₱ 17,244,772**	₱ 19,294,079	₱ 1,975,681
Weighted average number of common shares outstanding during the year	**1,445,549,830**	1,445,549,830	1,445,549,830
Earnings per share	**₱ 0.012**	₱ 0.013	₱ 0.001

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors (BOD) is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

The Group is exposed to a variety of financial risks, which result from both its operating and investing activities. The Group's principal financial instruments consist of cash, trade and other receivables, financial assets at FVOCI, advances to and from related parties, refundable deposits, accounts payable and other liabilities, borrowings, and retention payable and refundable bonds. The main purpose of these financial instruments is to raise finance for the Group's operations.

Financial risk management by the Group is coordinated with its BOD, in close cooperation with the local management. The Group's policies and guidelines cover credit risk and liquidity risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's results and financial position. The Group actively measures, monitors, and manages its financial risk exposure by various functions pursuant to the segregation of duties principles.

The Group forms a framework of guidelines and regulations for the management of financial risks, which result from its operating activities.

The most significant financial risks to which the Group is exposed to are described below.

Credit risk

Credit risk is the risk that the Group will incur a loss from customers or counterparties that fail to discharge their contractual obligations. The Group manages credit risk by setting limits on the amount of risk the Group is willing to accept from counterparties and by monitoring exposures in relation to such limits.

The Group's credit risks are primarily attributable to financial assets, especially on installment contract receivables. To manage credit risks, the Group maintains defined credit policies and monitors on a continuous basis its exposure to credit risks. Given the Group's diverse base of counterparties, it is not exposed to a large concentration of credit risk.

Credit risk arises from cash, trade and other receivables, advances to related parties (net) and refundable deposit lodged in "Other noncurrent assets".

The Group's current credit risk grading framework is as follows:

Category	Description	Basis for recognizing ECLs	Base	Minimum allowance for credit losses	Stage
Performing	The counterparty has a low risk of default and does not have any past due amounts	12-month ECL	0%	0%	1
Doubtful	Amount is 1-30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired	25%	1%	2
	Amount is 31-90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	5%	2
	Amount is 91-180 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	10%	2
	Amount is 181-360 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	25%	2
In default	Amount is over 1 year to 2 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	50%	25%	3
	Amount is over 2 year to 3 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	100%	25%	3
	Amount is over 3 year to 5 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	100%	50%	3
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	100%	100%	3

The maximum credit risk exposure of the financial assets is the carrying amount of the financial assets shown on the face of statement of financial position, as summarized below:

		December 31, 2018			
		Basis of recognizing ECL	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Cash in banks– note 4	(a)		**₱ 18,428,199**	**₱ –**	**₱ 18,428,199**
Trade and other receivables – note 5	(b)	Lifetime ECL	**591,548,491**	**(2,898,195)**	**588,650,296**
Advances to related parties – note 22	(c)	Lifetime ECL	**296,946,351**	**(27,006,459)**	**269,939,892**
Refundable deposits classified as “Other noncurrent assets”	(d)		**6,547,703**	**–**	**6,547,703**
Total			**₱ 913,470,744**	**(₱29,904,654)**	**₱ 883,566,090**

		January 1, 2018 (upon adoption of PFRS 9)			
		Basis of recognizing ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash in banks– note 4	(a)		₱ 13,299,540	₱ –	₱ 13,299,540
Trade and other receivables – note 5	(b)	Lifetime ECL	525,525,123	(578,494)	524,946,629
Advances to related parties – note 22	(c)	Lifetime ECL	356,978,495	(40,997,065)	315,981,430
Refundable deposits classified as “Other noncurrent assets”	(d)		6,405,096	–	6,405,096
Total			₱ 902,208,254	(₱41,575,559)	₱ 860,632,695

The credit quality of the Group’s financial assets is discussed below:

(a) Cash in banks

The credit risk for cash in banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of ₱500,000 for every depositor per banking institution.

(b) Trade and other receivables

Credit risk from installments contract receivables is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes credit review procedures for certain installment payment structures. The Group’s stringent customer requirements and policies in place contribute to lower customer default. Customer payments are facilitated through various collection modes including the use of post-dated checks and direct bank deposit arrangements. Exposure to bad debts is not significant and the requirement for remedial procedures is minimal given the profile of buyers.

In addition, the Group has the right to forfeit all payments made by the customer including the real estate properties sold upon default subject to terms of the contract. The Group has the liberty to dispose forfeited real estate properties subject to terms of the contract.

Furthermore, the credit risk for installment contract receivables is mitigated as the Group has the right to cancel the sales contract without need for any court action and take possession of the subject house in case of refusal by the buyer to pay on time the due installment contracts receivable. The risk is further mitigated because the corresponding title to subdivision units sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

In respect to other receivable, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

(c) Advances to Related Parties

For advances to related parties, the Group has applied the general approach to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The Group applies the general approach in measuring ECL which uses a 12-months ECL or lifetime ECL for advances to related parties.

To measure the ECL, advances to related parties have been grouped based on shared credit risk characteristics and the days past due. The Group has therefore concluded that the expected loss rates for advances to related parties are a reasonable approximation of the loss rates for the financial asset.

The expected loss rates are based on the payment profiles of related parties over a period of sixty (60) months before December 31, 2018 and January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the related parties to settle the receivables.

Advances to related parties are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and if past due for more than five (5) years.

The Group is pursuing cash collection of the advances to related parties. In addition, the Group has entered into various arrangements with related parties to secure payment of receivables such as execution of PN on real estate mortgage. In the event the related parties are not in position to pay in cash, collection shall be effected by way of transfer of properties that have been identified and are strategically located in Metro Manila, Cebu, Iloilo and Davao.

(d) Refundable deposits

The Group ensures compliance with the terms and conditions of the contract necessary for the refund of utilities and other deposits.

On that basis, the loss allowance as at December 31, 2018 and January 1, 2018 (upon adoption of PFRS 9) was determined based on months past due, as follows for financial assets at amortized cost:

December 31, 2018	**ECL rate**	**Cash in banks**	**Trade and other receivables**	**Advances to related parties**	**Refundabl e Deposit**	**Total**	**ECL**
	0%	**₱ 18,428,199**	**₱ 572,412,379**	**₱261,948,043**	**₱6,547,703**	**₱859,336,324**	**₱ –**
		–	**–**	**–**	**–**	**–**	**–**
1-30 days	0.25%	**–**	**–**	**–**	**–**	**–**	**–**
31-90 days	1.25%	**–**	**–**	**–**	**–**	**–**	**–**
91-180 days	2.50%	**–**	**–**	**–**	**–**	**–**	**–**
181-360 days	6.25%	**–**	**–**	**–**	**–**	**–**	**–**
1-2 years	12.50%	**–**	**18,557,619**	**9,133,542**	**–**	**27,691,160**	**3,461,394**
2-3 years	25.00%	**–**	**–**	**–**	**–**	**–**	**–**
3-5 years	50.00%	**–**	**–**	**–**	**–**	**–**	**–**
Past due and impaired	100%	**–**	**578,494**	**25,864,767**	**–**	**26,443,260**	**26,443,260**
		₱ 18,428,199	**₱591,548,492**	**₱296,946,351**	**₱6,547,703**	**₱913,470,744**	**₱ 29,904,654**

January 1, 2018	ECL rate	Cash in banks	Trade and other receivables	Advances to related parties	Other noncurrent assets	Total	ECL
Neither past due nor impaired	0%	₱ 13,299,540	₱ 506,864,834	₱294,595,735	₱6,405,096	₱821,165,205	₱ –
Past due but not impaired		–	–	–	–	–	–
1-30 days	0.25%	–	–	–	–	–	–
31-90 days	1.25%	–	–	–	–	–	–
91-180 days	2.50%	–	–	–	–	–	–
181-360 days	6.25%	–	18,081,795	21,385,693	–	39,467,488	2,466,718
1-2 years	12.50%	–	–	–	–	–	–
2-3 years	25.00%	–	–	–	–	–	–
3-5 years	50.00%	–	–	–	–	–	–
Past due and impaired	100%	–	578,494	40,997,067	–	41,575,562	41,575,562
		₱ 13,299,540	₱525,525,123	₱356,978,495	₱6,405,096	₱902,208,255	₱ 44,042,280

Liquidity risk

To cover the Group's financing requirements, financial readiness is maintained in the form of centrally available liquid fund and committed credit facilities extended by banks in the form of development loans and rediscounting of receivables. As part of the Group's liquidity program, a regular monitoring of financial ratios is being done. Regular analysis shows that these financial ratios indicate positive liquidity condition.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payment for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

As at December 31, 2018 and 2017, the Group's financial liabilities have contractual maturities (with accounts payable and other liabilities excludes deferred output VAT and other taxes payable) which are presented below:

		Maturing in			
December 31, 2018	**On Demand**	**Less than 6 month**	**6 to 12 Months**	**1 to 5 Years**	**Total**
Accounts payable and other liabilities	**₱ 38,602,535**	**₱ –**	**₱ –**	**₱ –**	**₱ 38,602,565**
Borrowings	**–**	**–**	**85,552,116**	**27,645,379**	**113,197,495**
Advances from related parties	**–**	**–**	**–**	**102,468,587**	**102,468,587**
Retention payable and guarantee bonds	**–**	**–**	**–**	**24,444,408**	**24,444,408**
	₱ 38,602,535	**₱ –**	**₱ 85,552,116**	**₱ 154,558,374**	**₱ 278,713,055**

		Maturing in			
December 31, 2017	On Demand	Less than 6 month	6 to 12 Months	1 to 5 Years	Total
Accounts payable and other liabilities	₱ 41,393,002	₱ –	₱ –	₱ –	₱ 41,393,002
Borrowings	–	–	58,980,789	52,321,666	111,302,455
Advances from related parties	–	–	–	155,841,281	155,841,281
Retention payable and guarantee bonds	–	–	–	23,641,679	23,641,679
	₱ 41,393,002	₱ –	₱ 58,980,789	₱ 231,804,626	₱ 332,178,417

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting dates.

Market risk

Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates and other market changes. Market prices comprise three types of risk: Interest rate risk, currency risk, commodity price risk and other price risk such as equity risk. The Group's market risk is manageable within conservative bounds. As at December 31, 2018 and 2017, the Group has unquoted shares of stock classified as FVOCI and AFS, respectively. The cost of the FVOCI approximates its fair value.

Equity price risk

The Group is exposed to price risk on the fluctuation on the price or fair value of financial asset at FVOCI. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. The Group's financial asset at FVOCI has no significant price risk since it has no quoted price in an active market.

If the price of financial asset at FVOCI had been 10% higher/ lower, other comprehensive income (loss) for the years ended December 31, 2018 and 2017 would decrease/increase by ₱1,250,000.

Interest rate risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a bank in the current interest rate environment and the sensitivity of that value to changes in interest rates.

To assure a fair margin of profitability, the Group keeps a reasonable spread between interest rate on contracts receivables and interest rates on borrowings. Fluctuation in interest rates has no material effect on Group's sales since the rates are fixed and predetermined at the inception of the contract.

The Group's policy is to minimize interest rate cash flow risk exposure on long-term financing. Long-term borrowings are therefore usually at fixed rates. At December 31, 2018 and 2017, the Group is exposed to market interest rates through its bank borrowings and cash in bank, installment contract receivables, and advances to related parties which are subject to fixed interest rates.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with their corresponding carrying amounts are shown in the following table:

December 31, 2018	**Interest rate**	**Interest Terms**	**Within 1 year**	**Within 1 to 7 years**	**Total**
Financial assets					
Cash in banks	**0.125% to 0.25%**	**Fixed at the date of investment**	**₱ 18,428,199**	**₱ –**	**₱ 18,428,199**
Installment contract receivables, gross	**18%**	**Fixed at the date of sale**	**535,560,064**	**25,263,276**	**560,823,340**
Advances to related parties, gross	**2%**	**Fixed based on PN renewed in 2014 - note 22**	**–**	**296,946,351**	**296,946,351**
			₱553,988,263	**₱322,209,627**	**₱ 876,197,890**
Financial liability					
Borrowings (excluding non-interest bearing borrowings)	**10%**	**Fixed based on PN issuance**	**₱ 85,552,116**	**₱ 27,645,379**	**₱ 113,197,495**

December 31, 2017	Interest rate	Interest Terms	Within 1 year	Within 1 to 7 years	Total
Financial assets:					
Cash in banks	0.125% to 0.25%	Fixed at the date of investment	₱ 13,299,540	₱ –	₱ 13,299,540
Installment contract receivables, gross	18%	Fixed at the date of sale	409,758,176	83,944,865	493,703,041
Advances to related parties, gross	2%	Fixed based on PN issued in 2014 - note 22	–	356,978,495	356,978,495
			₱ 423,057,716	₱ 440,923,360	₱ 863,981,076
Financial liabilities:					
Borrowings (excluding non-interest bearing borrowings)	10%	Fixed based on PN issuance	₱ 58,980,789	₱ 52,321,666	₱ 111,302,455

The following demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's income before income tax and equity.

2018			2017		
Change in interest rate	**Effect on income before tax**	**Effect on equity**	Change in interest rate	Effect on income before tax	Effect on equity
+0.5%	**(₱3,815,002)**	**(₱2,670,501)**	+0.5%	(₱3,763,393)	(₱2,634,375)
-0.5%	**3,815,002**	**2,670,501**	-0.5%	₱3,763,393	₱2,634,375

31. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group defines capital as share capital and deficit for the purpose of capital management.

The Group regards and monitors as its capital the carrying amount of equity as presented on the face of the consolidated statements of financial position amounting to ₱1,087,791,903 and ₱1,073,285,670 as at December 31, 2018 and 2017, respectively.

The Group's goal in capital management is to maintain a minimum debt-to-equity structure ratio of 0.45:1 to 0.55:1 which was unchanged from 2017. The Group's debt-to-equity ratios as at December 31 are as follows:

	2018	2017
Total liabilities	**₱ 534,932,649**	₱ 536,287,214
Total equity	**1,087,791,903**	1,073,285,670
	0.49:1	0.50:1

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group is not subject to any externally imposed capital requirements.

32. FAIR VALUE ESTIMATION

Assets and liabilities not measured at fair value

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statements of financial position are shown below:

December 31, 2018	**Carrying Value**	**Fair value**	**Fair value hierarchy**	**Valuation technique**
Assets				
Installment contract receivables	**₱ 560,244,846**	**₱ 558,640,089**	**Level 2**	**(a)**
Refundable deposits	**6,547,703**	**4,992,225**	**Level 2**	**(b)**
Receivable from contractors	**5,705,803**	**4,350,328**	**Level 2**	**(b)**
Investment property	**1,072,016**	**240,240,000**	**Level 2**	**(e)**
Advances to related parties	**269,939,892**	**254,370,389**	**Level 2**	**(c)**
	₱ 843,510,260	**₱1,062,593,031**		
Financial Liabilities at amortized cost				
Advances from related parties	**₱ 102,468,587**	**₱ 100,459,399**	**Level 2**	**(c)**
Borrowings	**113,197,495**	**109,750,648**	**Level 2**	**(d)**
Retention payable and refundable bonds	**24,444,408**	**18,637,372**	**Level 2**	**(b)**
	₱ 240,110,490	**₱ 228,847,419**		

December 31, 2017	Carrying Value	Fair value	Fair value hierarchy	Valuation technique
Assets				
Installment contract receivables	₱ 493,124,547	₱ 489,447,921	Level 2	(a)
Refundable deposits	6,405,096	6,253,086	Level 2	(b)
Receivable from contractors	4,812,299	4,698,091	Level 2	(b)
Investment property	1,072,016	109,200,000	Level 2	(e)
Advances to related parties	315,981,430	314,732,452	Level 2	(c)
	₱ 821,395,388	₱ 924,331,550		
Financial Liabilities at amortized cost				
Advances from related parties	₱ 155,841,281	₱ 155,225,288	Level 2	(c)
Borrowings	111,302,455	110,060,726	Level 2	(d)
Retention payable and refundable bonds	23,641,679	23,080,601	Level 2	(b)
	₱ 290,785,415	₱ 288,366,615		

The fair values of cash, financial asset at FVOCI, and accounts payable and other liabilities approximate their carrying amounts as at reporting dates.

Financial asset at FVOCI amounting to ₱12,500,000 as at December 31, 2018 and 2017 is carried at cost less impairment loss since there was no reliable basis for the measurement of the fair value.

Fair value estimation

(a) The fair value of installment contract receivables included under trade and other receivables are based on the discounted value of future cash using the discount rates of 6.78% and 6.57% as at December 31, 2018 and 2017, respectively.

(b) The fair value of receivable form contractors, refundable deposits, and retention payable and refundable bonds are determined based on discounted value using the applicable rate of 7.016% in 2018 and 4.921% in 2017.

(c) The fair value of advances to related parties and advances from related parties is determined based on discounted value using the applicable rate of 2% in 2018 and 2017.

(d) The fair value of interest bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable interest rates for similar types of loans. Discount rates used range from 6.783% to 7.037% in 2018 and 3.044% to 4.744% in 2017.

(e) The fair value was determined by reference to zonal values of real properties located in each zone or area upon consultation with competent appraisers both public and private sector.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation about the changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes are as follows:

December 31, 2018	**Balance as at January 1, 2018**	**Changes from financing cash flows**	**Balance as at December 31, 2018**
Borrowings	**₱ 111,302,455**	**₱ 1,895,040**	**₱ 113,197,495**
Advances from related parties	**155,841,281**	**(53,372,694)**	**102,468,587**

December 31, 2017	Balance as at January 1, 2017	Changes from financing cash flows	Balance as at December 31, 2017
Borrowings	₱ 78,335,423	₱ 32,967,032	₱ 111,302,455
Advances from related parties	123,756,261	32,085,020	155,841,281

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