



## **NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO: ALL STOCKHOLDERS**

Notice is hereby given that the **ANNUAL MEETING OF STOCKHOLDERS** of **PHILIPPINE ESTATES CORPORATION** will be held on:

Date : October 26, 2018  
Time : 1:00 p.m.  
Place : One Café and Events Place  
6<sup>th</sup> Floor, One Corporate Center  
Julia Vargas Ave. corner Meralco Ave.  
Ortigas Center, Pasig City, Metro Manila

For the purpose of transacting the following business:

- 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.

Stockholders who are unable to attend the meeting may vote by proxy, which shall be filed with the Corporate Secretary at least twenty-four (24) hours before the scheduled date of meeting.

The appropriate Proxy form is enclosed for your convenience.

Pasig City, October 5, 2018

FOR THE BOARD OF DIRECTORS

  
ATTY. ARSENIO A. ALFILER, JR.  
Corporate Secretary

**PROXY**

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned, a stockholder of PHILIPPINE ESTATES CORPORATION, do hereby name, constitute and appoint:

Mr./Ms. \_\_\_\_\_; or in his absence

Mr./Ms. \_\_\_\_\_; or in his absence

the Chairman of the shareholders' meeting, as his/her/its true and lawful Attorney-in-Fact for it and in his/her/its name, place and stead, to do and perform the following acts and things, to wit:

To attend, be present and represent the undersigned at the Annual Stockholders' Meeting of PHILIPPINES ESTATES CORPORATION including any adjournment or postponement thereof, to take part in the deliberation thereon, vote any and all shares that the undersigned now owns or may hereafter own in said Corporation in any matter, motion, resolution that may be taken up in said meeting/s in such manner as his/her/its aforesaid Attorney-in-Fact shall deem acceptable in the premises.

HEREBY GIVING AND GRANTING unto the said Attorney-in-Fact full power and authority to do and perform any and every act requisite or proper to be done in or about the premises, as fully to all intents as the undersigned might or could lawfully do if personally present and acting in person and hereby ratifying and confirming all that said Attorney-in-Fact shall lawfully do, or cause to be done by virtue hereof.

The power and authority herein granted shall remain in full force and effect until specifically revoked through a sufficient notice in writing delivered to the Secretary of the Corporation at any time before the meeting.

\_\_\_\_\_, \_\_\_\_\_ 2018.

PRINTED NAME OF STOCKHOLDER

\_\_\_\_\_

SIGNATURE OF STOCKHOLDER

\_\_\_\_\_

SEC Number 112978  
File Number \_\_\_\_\_

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PHILIPPINE ESTATES CORPORATION

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(Company's Full Name)

35<sup>th</sup> Floor, One Corporate Center, Julia Vargas Avenue corner Meralco Avenue,  
Ortigas Center, Pasig City, Metro Manila

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(Company's Address)

637-3112

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(Telephone Number)

December 31

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(Fiscal Year Ending)  
(Month and day)

**SEC Form 20-IS**

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(Form Type)

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Amended Designation (if applicable)

**December 31, 2017**

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Period Ended Date

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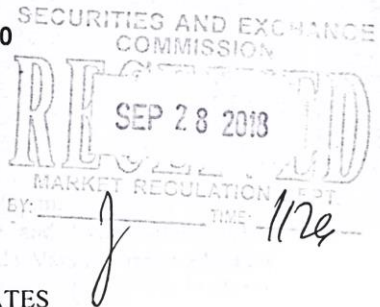
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

PART - I

Information Statement Pursuant to Section 20  
of the Securities Regulation Code



A. GENERAL INFORMATION

1. Check the appropriate box:  
 Preliminary Information Statement  
 Definitive Information Statement
2. Name of Registrant as specified in its Charter: PHILIPPINE ESTATES CORPORATION
3. Province, Country or Other jurisdiction of Incorporation or Organization : Metro Manila, Philippines
4. SEC Identification Number : 112978
5. BIR Tax Identification Number : 000-263-366
6. Address of principal office : 35<sup>th</sup> Floor, One Corporate Center, Julia Vargas, corner Meralco Ave., Ortigas Center, Pasig City, Metro Manila
7. Registrant's telephone number, including area code : Tel. No. (02) 637-3112 Fax No. (02) 636-8847
8. Date, time and place of the meeting of security holders : October 26, 2018  
1:00 p.m. /One Café and Events Place  
6<sup>th</sup> Floor, One Corporate Center, Julia Vargas Ave., corner Meralco Ave., Ortigas Center, Pasig City, Metro Manila.
9. Approximate date on which the Information Statement is first to be sent or given to security holders : October 5, 2018
10. Securities registered pursuant to Sections 4 and 8 of the RSA : Common Shares with par value of PhP1.00/share
- (a) The No. of Shares of Common Stock Issued and Outstanding: 1,445,549,830  
Amount of Debt Outstanding: PhP 111,302,455
11. Are any or all of these securities listed on the Philippine Stock Exchange?  
 Yes  No  
Common Shares are listed on the Philippine Stock Exchange.

## **PART – I**

### **A. GENERAL INFORMATION**

#### **Item 1. Date, Time and Place of Meeting of Security Holders**

- (a.) Date, time and place of meeting: October 26, 2018, 1:00 p.m.  
6<sup>th</sup> Floor, One Café and Events Place, One Corporate Center, Julia Vargas, corner Meralco Avenue, Ortigas Center, Pasig City, Metro Manila.
- Complete mailing address of principal office: 35<sup>th</sup> Floor, One Corporate Center, Julia Vargas Ave., corner Meralco Ave., Ortigas Center, Pasig City, Metro Manila.
- (b.) Approximate date on which the Information Statement is first to be sent or given to security holders: October 5, 2018

#### **Item 2. Dissenters' Right of Appraisal**

The stockholders' right of appraisal has no applicability in the forthcoming Annual Meeting of Stockholders of Philippine Estates Corporation (PHES) as the Agenda does not include any of the instances when the right may be invoked in accordance with Section 81 of the Corporation Code.

#### **Item 3. Interest of Certain Persons in, or Opposition to Matters to be Acted Upon.**

- (a.) Since the beginning of the last fiscal year, none of the directors, any nominee for elections as director in the company, or associate of any of the foregoing persons have any substantial interest, direct or indirect, in any matter, to be acted upon in the stockholders meeting, other than election to office.
- (b.) No director has informed the Company in writing that he intends to oppose any action to be taken by the Company at the meeting.

### **B. CONTROL AND COMPENSATION INFORMATION**

#### **Item 4. Voting Securities and Principal Holders Thereof.**

- (a) The number of common shares of stock issued and outstanding as of August 31, 2018 is 1,445,549,830. The common shares owned by Filipinos is 1,386,885,250 or equivalent to 95.94%. Common shares allowed to foreigners is 578,219,932 and the total shares owned by foreigners is 58,664,580 or equivalent to 4.06%. For the purpose of electing Directors at the forthcoming Annual Meeting of Stockholders, stockholders enjoy cumulative voting rights. Each common share is entitled to eleven (11) votes which may be cast cumulatively in favor of one candidate, or distributively to as many candidates and in any proportion as the stockholders see fit.

(b) Only persons who are stockholders of record as of 28 September 2018 may vote, or be voted upon, for the position of Director.

(c) Security ownership of certain record and beneficial owners and management.

1. Security ownership of certain record and beneficial owners of more than five percent (5%) as of August 31, 2018:

| Title of Class | Name and Address of Record/Beneficial Owner and Relationship with Issuer   | Name of Beneficial Owner & Relationship with Record Owner | Citizenship  | Number of Shares Held | % of Ownership |
|----------------|--|---|--------------|-----------------------|----------------|
| Common         | PCD NOMINEE CORP.<br>Indirect Beneficial Ownership<br>6767 Ayala Ave. Makati City  | -----   | Filipino     | 700,722,350           | 48.474         |
| Common         | PCD NOMINEE CORP.<br>Indirect Beneficial Ownership<br>6767 Ayala Ave. Makati City  | -----   | Non-Filipino | 58,663,010            | 4.058          |
| Common         | RECOVERY REAL ESTATE CORP.<br>22 <sup>ND</sup> Flr. CITIBANK TOWER<br>8741 PASEO DE ROXAS<br>MAKATI CITY<br>Affiliate-Direct Beneficial Ownership  | DEE HUA T. GATCHALIAN<br>Corporate Treasurer              | Filipino     | 150,000,000           | 10.377         |
| Common         | REXLON REALTY GROUP, INC.<br>22 <sup>ND</sup> Flr. CITIBANK TOWER<br>8741 PASEO DE ROXAS<br>MAKATI CITY<br>Affiliate-Direct Beneficial Ownership   | DEE HUA T. GATCHALIAN<br>Corporate Treasurer              | Filipino     | 200,000,000           | 13.836         |
| Common         | ROPEMAN INTERNATIONAL CORP.<br>#7 T. SANTIAGO ST.<br>CANUMAY, VALENZUELA<br>METRO MANILA<br>Affiliate-Direct Beneficial Ownership  | DEE HUA T. GATCHALIAN<br>Corporate Treasurer              | Filipino     | 178,270,000           | 12.332         |
| Common         | THE WELLEX GROUP, INC.<br>35 <sup>TH</sup> FLR. ONE CORP. CENTER<br>UNITS 3504 & 3504, JULIA VARGAS<br>CORNER MERALCO AVE., ORTIGAS<br>CENTER, PASIG CITY<br>Affiliate-Direct Beneficial Ownership | DEE HUA T. GATCHALIAN<br>Assistant Corporate Treasurer    | Filipino     | 143,892,990           | 9.954          |

2. Security ownership of management as of August 31, 2018:

1. Security Ownership of Management.

| Title of Class | Name of Beneficial Owner              | Citizenship | Amount and Nature of Class             | % of Ownership |
|----------------|---------------------------------------|-------------|--|----------------|
| Common         | Arthur M. Lopez<br>Chairman/Director  | Filipino    | 1,000-Direct<br>Beneficial Ownership   | 0.000          |
| Common         | Dee Hua T. Gatchalian<br>Director     | Filipino    | 2,000-Direct<br>Beneficial Ownership   | 0.000          |
| Common         | Ms. Elvira A. Ting<br>President / CEO | Filipino    | 500,000-Direct<br>Beneficial Ownership | 0.035          |
| Common         | Renato B. Magadia<br>Director         | Filipino    | 1,000,000<br>Beneficial Ownership      | 0.069          |

|        |   |          |  |       |
|--------|---|----------|--|-------|
| Common | Joaquin P. Obieta<br>Director                     | Filipino | 1,100-Direct<br>Beneficial Ownership     | 0.000 |
| Common | Sergio R. Ortiz-Luis, Jr.<br>Independent Director | Filipino | 1,000-Direct<br>Beneficial Ownership     | 0.000 |
| Common | Arthur R. Ponsaran<br>Director                    | Filipino | 1,000-Direct<br>Beneficial Ownership     | 0.000 |
| Common | Richard L. Ricardo<br>Treasurer/Director          | Filipino | 1,230,000-Direct<br>Beneficial Ownership | 0.085 |
| Common | Kenneth T. Gatchalian<br>Vice Chairman/Director   | Filipino | 320,000 Direct<br>Beneficial Ownership   | 0.022 |
| Common | Byoung Hyun Suh<br>Independent Director           | Filipino | 1,000-Direct<br>Beneficial Ownership     | 0.000 |
| Common | James Palit-Ang<br>Director                       | Filipino | 1,000-Direct<br>Beneficial Ownership     | 0.000 |

- ◆ Beneficial ownership of all directors and officers as a group unnamed is 3,058,100 shares.
- ◆ Voting Trust Holders of five percent (5%) or more.  
There are no voting trust holders of five percent (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 Mrs. Dee Hua T. Gatchalian.

\*\* Rexlon Realty Group, Inc. is represented by Mrs. Dee Hua T. Gatchalian.

\*\*\* Ropeman International Corporation is represented by Mrs. Dee Hua T. Gatchalian.

\*\*\*\* The Wellex Group, Inc. is represented by Mrs. Dee Hua T. Gatchalian.

### MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY

#### (1) Market Information

(a.) The shares of stock of the company are being traded in the Philippine Stock Exchange. The high and low sales price for each quarter within the last two (2) fiscal years and the current year are as follows:

|    | 2018  |       | 2017 |      | 2016 |      |
|----|-------|-------|------|------|------|------|
|    | High  | Low   | High | Low  | High | Low  |
| Q1 | 0.48  | 0.30  | 0.38 | 0.26 | 0.31 | 0.20 |
| Q2 | 0.49  | 0.39  | 0.41 | 0.29 | 0.31 | 0.23 |
| Q3 | - x - | - x - | 0.62 | 0.30 | 0.30 | 0.26 |
| Q4 | - x - | - x - | 0.48 | 0.35 | 0.29 | 0.25 |

- The sales price as of August 31, 2018 was 0.4750
- There were no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

#### (2) Holders

### (3) Dividends

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

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

| Rank | Stockholders Name                         | No. of Shares Held | % of Ownership |
|------|---|--------------------|----------------|
| 1    | PCD Nominee Corporation<br>(Filipino)     | 700,722,350        | 48.474         |
| 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<br>(Non-Filipino) | 58,663,010         | 4.058          |
| 7    | Recovery Development Corp.                | 3,000,900          | 0.208          |
| 8    | Vicente C. Co                             | 1,575,000          | 0.109          |
| 9    | Richard 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          |

The Company's Articles of Incorporation states that dividends may be declared only out of the unrestricted retained earnings. Thus, unless the Company's retained earnings position changes, the directors will not be able to legally declare any dividends on its common shares.

There were no cash dividends declared within the last two (2) fiscal years.

### (4) Recent Sales of Unregistered or Exempt Securities, including Recent Issuance of Securities Constituting an Exempt Transaction.

There has been no recent sale of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction.

### Item 5. Directors and Executive Officers

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



- a. **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
  
- 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. Secretary / Director – Waterfront Manila Premier  
Development, Inc.
  
- d. **JOAQUIN P. OBIETA** - 84 years old, Filipino (**Director**)  
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. **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
  
- g. **ARTHUR R. PONSARAN** - 75 years old, Filipino (**Director**)  
Managing Partner – Corporate Counsels, Phils. Law Offices  
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  
 Assistant 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.

**Term of Office**

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.

The newly elected Directors elected the following Corporate Officers and Committee members during their organizational meeting to serve for the term 2016-2017:

- |                              |                                |
|------------------------------|--------------------------------|
| a) Chairman                  | - Mr. Arthur M. Lopez          |
| b) Vice Chairman             | - Mr. Kenneth T. Gatchalian    |
| c) President                 | - Ms. Elvira A. Ting           |
| d) Treasurer                 | - Mr. Richard Ricardo          |
| e) Corporate Secretary       | - Atty. Arsenio A. Alfiler Jr. |
| f) 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. Renato B. Magadia (Member)

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.
4. None of the directors or officers of the registrant has been involved in any: (a.) Bankruptcy Petition, (b.) Violation of a Securities or Commodities Law, (c.) Conviction by final judgment, (d.) Nor has the foregoing officers been subjected to any order or decree, (e.) None of the foregoing incidents occurred during the past five (5) years up to 31 July 2017 that are material to, and for purposes of SEC's evaluation.
5. 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.

### Board of Directors

The Corporation has adopted the SEC Circular No. 16 series of 2002 (Guidelines on Nomination and Election of Independent Directors) and pursuant to SRC Rule 38, compliance therewith has been made.

The nominees for election to the Board of Directors of the Corporation on October 26, 2018 are as follows:

1. Elvira A. Ting
2. Dee Hua T. Gatchalian
3. Arthur M. Lopez
4. Renato B. Magadia
5. Sergio R. Ortiz-Luis, Jr.
6. Arthur. R. Ponsaran
7. Joaquin P. Obieta
8. Richard L. Ricardo
9. Kenneth T. Gatchalian
10. James B. Palit-Ang
11. Byoung Hyun Suh

A summary of the nominees’ qualifications is presented in the preceding paragraph.

The Nominations Committee conducts nominations and pre-screens the qualifications of candidates for Independent Directors prior to the stockholders' meeting in accordance with Sec. 5, Art. III of the Corporation's By-Laws. All the nominees for election to the Board of Directors satisfy the mandatory requirements specified therein.

The independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The Certifications of the independent directors are attached herewith as Annexes "A-1" and "A-2".

Pursuant to the process conducted by the Nominations Committee, the nominees for election as independent directors of the Board of Directors on October 26, 2018 are as follows:

Mr. Sergio R. Ortiz-Luis, Jr., 76 years old, Filipino, is an **Independent Director** of the Company. He also serves as the President of Philippine Exporters Confederation Inc., Director of Waterfront Philippines, Inc. Director of Rural Bank of Baguio and Vice-Chairman of Alliance Global, Inc.

Mr. Byoung Hyun Suh, 61 years old, Korean, is an **Independent Director** of the Company. He also serves as the President of the Pan Islands, Inc., President of National Unification Advisory Council Southeast Asia Chapter – R.O.K., Independent Director – Forum Pacific, Inc. and Wellex Industries, Incorporated.

Mr. Ortiz-Luis, Jr. and Mr. Byoung Hyun Suh were nominated by stockholders, Mr. James B. Palit-Ang and Ms. Cora Corpuz, respectively. The stockholders who made the nomination are not in any way related to the nominees.

## **(2.) Significant Employees**

Other than its current officers mentioned in the preceding sub-section, the Corporation has not engaged the services of any person who is expected to make significant contribution to the business of the Corporation.

## **(3.) Family Relationships**

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.) 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 Disistance.

**Item 6. Compensation of Executive Officers.**

1. Estimated Compensation :

| <i>Name and<br/>Principal Position</i>             | <i>Year</i> | <i>Salary</i> | <i>Bonus</i> | <i>Other Annual<br/>Compensation (13<sup>th</sup> Mo.)</i> |
|--|-------------|---------------|--------------|--|
| ELVIRA A. TING<br>President & CEO                  | 2018        | P 840,000.00  | 0.00         | P 70,000.00  |
| JAMES B. PALIT-ANG<br>VP – Business Dev’t (Vismin) | 2018        | P 600,000.00  | 0.00         | P 50,000.00  |
| MANOLO B. FERNANDEZ<br>Chief Operating Officer     | 2018        | P 720,000.00  | 0.00         | P 80,000.00  |
| JOCELYN A. VALLE<br>Finance Head                   | 2018        | P 480,000.00  | 0.00         | P 40,000.00  |
| FERDINAND P. HALILI<br>Operations Head             | 2018        | P 480,000.00  | 0.00         | P 40,000.00  |
| BRANDO R. BULOSAN<br>Planning and Design Head      | 2018        | P 360,000.00  | 0.00         | P 30,000.00  |

The estimated aggregate compensation of the members of the Board of Directors and Executive Officers as a group for the year 2018 is P 3,790,000.

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

No other member of the Board of Directors and Officers are receiving compensation.

| <i>Name and<br/>Principal Position</i>             | <i>Year</i> | <i>Salary</i> | <i>Bonus</i> | <i>Other Annual<br/>Compensation (13<sup>th</sup> Mo.)</i> |
|--|-------------|---------------|--------------|--|
| ELVIRA A. TING<br>President & CEO                  | 2017        | P 840,000.00  | 0.00         | P 70,000.00  |
| JAMES B. PALIT-ANG<br>VP – Business Dev’t (Vismin) | 2017        | P 600,000.00  | 0.00         | P 50,000.00  |
| MANOLO B. FERNANDEZ<br>Chief Operating Officer     | 2017        | P 960,000.00  | 0.00         | P 80,000.00  |
| JOCELYN A. VALLE                                   |             |               |              |  |

|   |      |   |            |      |             |
|---|------|---|------------|------|-------------|
| Finance Head                                  | 2017 | P | 480,000.00 | 0.00 | P 40,000.00 |
| FERDINAND P. HALILI<br>Operations Head        | 2017 | P | 480,000.00 | 0.00 | P 40,000.00 |
| BRANDO R. BULOSAN<br>Planning and Design Head | 2017 | P | 360,000.00 | 0.00 | P 30,000.00 |

The estimated aggregate compensation of the members of the Board of Directors and Executive Officers as a group for the year 2017 is P 4,030,000.00

No other member of the Board of Directors and Officers are receiving compensation.

| <i>Name and<br/>Principal Position</i>             | <i>Year</i> |   | <i>Salary</i> | <i>Bonus</i> | <i>Other Annual<br/>Compensation (13<sup>th</sup> Mo.)</i> |
|--|-------------|---|---------------|--------------|--|
| ELVIRA A. TING<br>President & CEO                  | 2016        | P | 840,000.00    | 0.00         | P 70,000.00  |
| JAMES B. PALIT-ANG<br>VP – Business Dev’t (Vismin) | 2016        | P | 600,000.00    | 0.00         | P 50,000.00  |
| MANOLO B. FERNANDEZ<br>Chief Operating Officer     | 2016        | P | 864,000.00    | 0.00         | P 72,000.00  |
| JOCELYN A. VALLE<br>Finance Head                   | 2016        | P | 468,000.00    | 0.00         | P 39,000.00  |
| FERDINAND P. HALILI<br>Operations Head             | 2016        | P | 420,000.00    | 0.00         | P 35,000.00  |
| BRANDO M. BULOSAN<br>Planning and Design Head      | 2016        | P | 360,000.00    | 0.00         | P 30,000.00  |

The estimated aggregate compensation of the members of the Board of Directors and Executive Officers as a group for the year 2016 is P 3,848,000.00

No other member of the Board of Directors and Officers are receiving compensation.

2. Each member of the Board of Directors is given PhP10,000.00 per diem for attendance in a special or regular board meeting and PhP5,000 for attendance in a committee meeting.

#### **Item 7. 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. Such representatives are also expected to be available to respond to appropriate questions.

### **Rotation of External Auditors**

The Company in compliance with SRC Rule 68 Par. 3(B)(ix) expresses that its independent auditors, the accounting firm of Diaz, Murillo, Dalupan and Co. and the signing partners thereof shall be rotated after every five (5) years of engagement and that a two-year cooling off period shall be observed in the engagement of the same signing partner(s).

#### (a.) Audit and Audit-Related Fees

|   | YEAR | AMOUNT  |
|---|------|---------|
| 1. Audit of Financial Statement             | 2016 | 511,500 |
|   | 2017 | 622,650 |
| 2. No audit fees for other related services |      |         |
| (b.) Tax Fees                               | 2016 | nil     |
|   | 2017 | nil     |

#### (c.) All other Fees

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

(d.) The external auditor regularly tenders an audit engagement proposal which the audit committee reviews. The audit committee looks into the audit plan, scope and frequency of the audit and regularly holds audit committee meeting with the external auditor

## **D. OTHER MATTERS**

### **Item 8. Action with Respect to Reports**

The following is the Agenda for the upcoming Annual Stockholders' Meeting:

1. Reading and approval of the Minutes of the 2017 Annual Stockholders' Meeting.
2. Reading and approval of the Annual Report.
3. Ratification of all acts of the Board of Directors and Management during the past year.
4. Election of directors for the ensuing term.



5. Appointment of external auditor.  
(This will include: Agreements with contractors, other corporations in pursuance of the business of the corporation where simple majority vote is required.)

The Minutes of the Annual Stockholders' Meeting held on October 6, 2017 contains the approval of the Minutes of the year 2016 Annual Stockholders' Meeting, the approval of the year 2016 Annual Report and the Audited Financial Statements, the ratification of the acts of the Board of Directors and management during the year 2016, the election of the external auditor and the election of the members of the Board of Directors.

The Annual Report contains the Business and General Information, Operational and Financial Information, Control and Compensation Information about the Company. The Audited Financial Statements for the year 2017 also forms part of the Annual Report.

### **Item 9. Other Proposed Action**

The following are to be proposed for approval during the stockholders' meeting:

1. Approval of Minutes of the previous Stockholders' meeting
2. Presentation of the Annual Report and Audited Financial Statements for the calendar year 2017
3. Ratification of the acts of the Board of Directors and Management for 2017
4. Election of Members of the Board of Directors.
5. Appointment of External Auditor.
6. Amendment Articles of Incorporation specifically Article FOURTH regarding principal office address of Philippine Estates Corporation from Metro Manila to 35th Floor, One Corporate Center, Doña Julia Vargas Ave. corner Meralco Ave., Ortigas Center, Pasig City, Metro Manila pursuant to SEC Memorandum Circular No. 6 Series of 2014.
7. Other Business.

### **Item 10. Amendment of Charter, By-Laws & Other Documents**

In accordance with the provisions of Rule 38 of the Securities Regulation Code (SRC), as amended, the Company on March 17, 2005, has amended its By-laws, to include provisions for the nomination and election of at least two (2) independent directors and provisions for the creation and functions of the Executive Committee, Audit Committee and Corporate Governance.

### **Item 11. Voting Procedures**

Article II, Section 5 (a.) and (b.) of the By-laws of the Corporation provides, as follows:

- (a) At each meeting of the stockholders, the holders of a majority of the issued outstanding capital stock of the Corporation having voting powers, who are present in person or represented by proxy, shall constitute a quorum for the transaction of business, except, where otherwise provided by the Corporation Code.
- (b) Unless otherwise provided by the Corporation Code, each stockholder shall at every meeting of the stockholders be entitled to one vote per person or by proxy, for each share with voting right

held by such stockholder. At all meetings of the stockholder, all matters, except in cases where other provisions is made by the Corporation Code, shall be decided by the vote of stockholders representing majority of the issued and outstanding capital stock present in person or by proxy and entitled to vote thereat, a quorum being present. Unless required by the Corporation Code, or demanded by a stockholder present in person or by proxy at any meeting and entitled to thereat, the vote on any question need not be by ballot. On a vote ballot, each ballot shall be signed by the stockholder voting or in his name by his proxy, and shall state the number of shares voted by him.

- (c) The holders of common stock are entitled to one vote per share, but in connection with the cumulative voting feature applicable to the election of directors, each stockholder is entitled to as many votes as shall equal the number of shares held by such person at the close of business on record date, multiplied by the number of directors to be elected. A stockholder may cast all of such votes for a single nominee or may apportion such votes among any two or more nominees. The shares shall be voted/cast by secret balloting and/or raising of hands. In all matters included in the agenda, except, the election of directors, the stockholders are entitled to one vote per share. For the election of directors, the counting will be cumulative. The counting of votes will be done by the Corporate Secretary with the assistance of the representatives of the Corporation's independent auditor Diaz, Murillo, Dalupan and Co. and Stock Transfer Agent, Banco de Oro Stock Transfer Agency. All votes attaching to the shares owned by stockholders whose proxies were received by the Corporation will be cast in accordance with the instructions given or authority granted under proxies.

## **Item 12. Corporate Governance**

The Corporation adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual and related SEC Circulars. Continuous improvement and monitoring of policies have been undertaken to ensure that the Corporation observes good governance and management practices. This is to assure the shareholders that the Corporation conducts its business with the highest level of integrity, transparency and accountability.

The Board of Directors is elected during the annual meeting and has the overall responsibility to oversee the activities of the Company. The Board conducts itself with honesty and integrity to ensure a high standard of best practices on governance for the Company and to promote and protect the interest of the Company, its stockholders and other stakeholders.

The Company realizes its duty to protect the rights and benefits of shareholders and to place the importance on fair and equal treatment of shareholders. It is the Company's policy to disclose information with respect to business operation with accuracy and transparency, including any issues that could impact the Company's business and the rights in which shareholders and minority shareholders are entitled to, such as shareholders' participation in the shareholders' meeting to exercise their voting rights, the rights to receive dividend, or the rights to approve a decrease or an increase in capital, etc. The Board has similarly adopted a Corporate Governance Policy to ensure that the rights of its shareholders particularly those that belong to the minority or non-controlling group are respected and protected by adopting the principle of "one-share, one-vote", likewise by ensuring that all shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights and also by having an effective, secure and efficient voting system, and an effective shareholder voting mechanism to protect minority shareholders against actions of controlling shareholders. The Board also provides all shareholders with the notice and agenda of the Annual Stockholders' Meeting (ASM) at least twenty (20) days before the meeting.

The Company has an orientation program for all new employees being conducted by the Manager of Human Resources. The Company in association with other affiliated listed companies has organized an in-house Corporate Governance Seminar last August 15, 2018. The seminar was conducted by SEC accredited training institution, *Risk, Opportunities, Assessment and Management (ROAM), Inc.* and was held at The Metropolitan Club, Inc. The seminar was attended by Company's Board and executives. The Company also paid for registration fees for seminars which the Company's employees attended for continuing professional education such as Tax Seminar conducted by BIR, Disclosures Seminar by the Philippine Stock Exchange, Mandatory Continuing Legal Education and other seminars related with real estate development.

As of June 30, 2018, there are no known material deviations from the Company's Manual of Corporate governance.

### **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 may have a material impact on sales is the economic situation. The seemingly improving economic situation has already translated into a significant buying mood for the real estate market. Overall, there are no contingencies that may affect future operations of the Company. In such eventuality, the resolution of this is 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. These are well within the regular cash flow budget coming from internally generated funds and short-term borrowings from banks and other financial institutions.

- **Any known trends, events or uncertainties (Material Impact on Sales)**

There were no known trends, events or uncertainties (Material Impact on Sales)

- **Any significant elements of income or loss (from continuing operations)**

There were no significant elements of income or loss (from continuing operations).

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

Projects are launched at no particular 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 and other financial institution, private or government. The Company periodically reviews its capital structure and existing obligations..

**UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE REGISTRANT UNDERTAKES TO FURNISH SAID STOCKHOLDER A COPY OF SEC FORM 17-A FREE OF CHARGE, EXCEPT FOR EXHIBITS ATTACHED THERETO WHICH SHALL BE CHARGED AT COST. ANY WRITTEN REQUEST FOR A COPY OF SEC FORM 17-A SHALL BE ADDRESSED AS FOLLOWS:**

**PHILIPPINE ESTATES CORPORATION  
35TH FLR. ONE CORPORATE CENTER  
JULIA VARGAS COR MERALCO AVENUE  
PASIG CITY, PHILIPPINES**

**Attention: Atty Mariel Francisco**

**CERTIFICATION**


I, MARIEL L. FRANCISCO, of legal age and with office address at Unit 3104 Antel Global Corporate Center, #3 Doña Julia Vargas Avenue, Ortigas Center, Pasig City, after being duly sworn to in accordance with law, do hereby certify:

I am the duly elected Assistant Corporate Secretary of Philippine Estates Corporation, a corporation duly organized and existing under Philippine laws with principal office at 35<sup>th</sup> Floor of One Corporate Centre, Doña Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City (the "Corporation");

All incumbent directors and officers of the Corporation are not connected with any government agency or instrumentality.

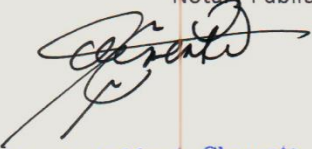
I execute this Certification to comply with the requirements of the Securities and Exchange Commission.

**IN WITNESS WHEREOF**, I have hereunto set my hands this 14 day of AUG 2018, 2018 in the City of Pasig.

  
**MARIEL L. FRANCISCO**  
Assistant Corporate Secretary  
SSS ID No. 33-80339715

14 AUG 2018  
Subscribed and sworn to before me this \_\_\_\_\_ at  
Pasig City, affiant exhibiting to me her IBP ID with Roll No. 57260.

Doc. No. 58;  
Page No. 13;  
Book No. 2;  
Series of 2018.

Notary Public  
  
**Atty. Lady Mae A. Clemente**  
PTR No. 3983436; 1-24-18 Pasig  
IBP Membership No. 029705; RSM  
Roll No. 69675  
MCLE Compliance No. VI-0003249  
Appointment No. 207 (2017-2018)  
35th Floor One Corporate Centre,  
Julian Vargas Avenue corner Meralco Avenue,  
Ortigas Center, Pasig City

**CERTIFICATE OF QUALIFICATION OF INDEPENDENT DIRECTORS**

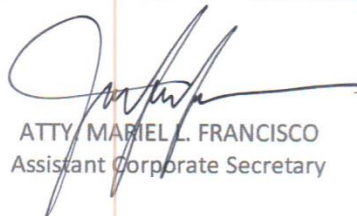
I, ATTY. MARIEL L. FRANCISCO, being the duly elected Assistant Corporate Secretary of Philippine Estates Corporation (hereinafter the "Corporation"), a corporation duly organized and existing under and by virtue of Philippine law, with principal office address at the 35<sup>th</sup> Floor, One Corporate Center, Doña Julia Vargas Avenue corner Meralco Avenue Ortigas Center, Pasig City, Metro Manila, Philippines, do hereby certify, that:

1. Mr. Byoung H. Suh is a nominee for the position of Independent Director of Philippine Estates Corporation;

2. The foregoing nominee possesses all the qualifications and none of the disqualifications to serve as Independent Director of Philippine Estates Corporation as provided for in Section 38 of the Securities and Regulation Code (SRC) and its Rules and Regulations;

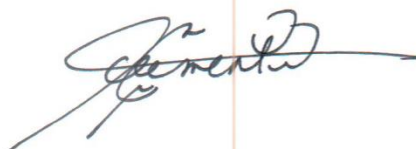
3. That the foregoing nominee has not exceeded the five (5) consecutive year term limit as expressly delineated under SEC Memorandum Circular No. 9, Series of 2011.

IN ATTESTATION OF THE ABOVE, this Certification is signed on this 14 day of AUG 2018 2018, at Pasig City, Metro Manila.



ATTY. MARIEL L. FRANCISCO  
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me, this 14 day of AUG 2018 2018, at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 224-150-060) with her photograph appearing thereon.



Doc. No. 57;  
Page No. 13;  
Book No. 2;  
Series of 2018.

**Atty. Lady Mae A. Clemente**  
PTR No. 3983436; 1-24-18 Pasig  
IBP Membership No. 029705; RSM  
Roll No. 69675  
MCLE Compliance No VI-0003249  
Appointment No. 207 (2017-2018)  
35<sup>th</sup> Floor One Corporate Centre,  
Julian Vargas Avenue corner Meralco Avenue,  
Ortigas Center, Pasig City

**CERTIFICATE OF QUALIFICATION OF INDEPENDENT DIRECTORS**

I, ATTY. MARIEL L. FRANCISCO, being the duly elected Assistant Corporate Secretary of Philippine Estates Corporation (hereinafter the "Corporation"), a corporation duly organized and existing under and by virtue of Philippine law, with principal office address at the 35<sup>th</sup> Floor, One Corporate Center, Doña Julia Vargas Avenue corner Meralco Avenue Ortigas Center, Pasig City, Metro Manila, Philippines, do hereby certify, that:

1. Mr. Sergio R. Ortiz-Luis, Jr. is a nominee for the position of Independent Director of Philippine Estates Corporation;

2. The foregoing nominee possesses all the qualifications and none of the disqualifications to serve as Independent Director of Philippine Estates Corporation as provided for in Section 38 of the Securities and Regulation Code (SRC) and its Rules and Regulations;

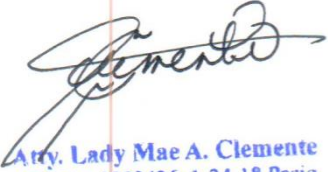
3. That the foregoing nominee has not exceeded the five (5) consecutive year term limit as expressly delineated under SEC Memorandum Circular No. 9, Series of 2011.

IN ATTESTATION OF THE ABOVE, this Certification is signed on this 14 day of AUG 2018, at Pasig City, Metro Manila.

  
ATTY. MARIEL L. FRANCISCO  
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me, this 14 day of AUG 2018, at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 224-150-060) with her photograph appearing thereon.

Doc. No. 54;  
Page No. 13;  
Book No. 2;  
Series of 2018.

  
Atty. Lady Mae A. Clemente  
PTR No. 3983436; 1-24-18 Pasig  
IBP Membership No. 029705; RSM  
Roll No. 69675  
MCLE Compliance No. VI-0003249  
Appointment No. 207 (2017-2018)  
35th Floor One Corporate Centre,  
Julian Vargas Avenue corner Meralco Avenue,  
Ortigas Center, Pasig City



**CERTIFICATION OF INDEPENDENT DIRECTOR**

I, **BYOUNG HYUN SUH**, Korean, of legal age and a resident of Unit 2006B The Salcedo Place, Tordesillas St., Salcedo Village, Makati City after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **PHILIPPINE ESTATES CORPORATION** and have been its independent director since 2016.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

| COMPANY/ORGANIZATION  | POSITION/RELATIONSHIP      | PERIOD OF SERVICE     |
|---|----------------------------|-----------------------|
| Pan Islands, Inc.   | President                  | Feb. 1995 – present   |
| National Unification Advisory Council<br>Southeast Asia Chapter – R.O.K | President                  | July 2009 – June 2017 |
| Forum Pacific, Inc.   | Independent Director       | June 2011 – present   |
| Wellex Industries, Incorporated   | Independent Director       | June 2011 – present   |
| World Okta Federation   | Dictator and Vice Chairman | Dec. 2006 - present   |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **PHILIPPINE ESTATES CORPORATION**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

| NAME OF DIRECTOR/OFFICER/<br>SUBSTANTIAL SHAREHOLDER | COMPANY | NATURE OF RELATIONSHIP |
|--|---------|------------------------|
| N/A  | N/A     | N/A                    |
|  |         |                        |
|  |         |                        |

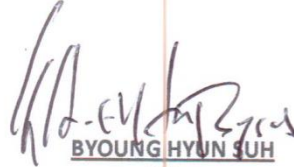
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding / I disclose that I am the subject of the following criminal/administrative investigation or proceeding (as the case may be):

| OFFENSE CHARGED/INVESTIGATED | TRIBUNAL OR AGENCY INVOLVED | STATUS |
|------------------------------|-----------------------------|--------|
| N/A                          | N/A                         | N/A    |
|                              |                             |        |
|                              |                             |        |

6. (For those in government service/affiliated with a government agency or GOCC) I have the required written permission or consent from the (head of the agency/department) to be an independent director in , pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of **PHILIPPINE ESTATES CORPORATION** of any changes in the abovementioned information within five days from its occurrence.

Done this \_\_\_\_ of \_\_\_\_, 2018 at AUG 14 2018.



**BYOUNG HYUN SUH**

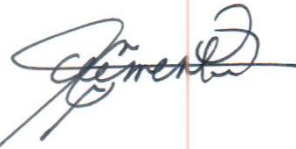
Affiant

14 **AUG 2018**

**Pasig City**

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_ at \_\_\_\_\_, affiant personally appeared before me and exhibited to me his Community Tax Certificate No. 24530383 issued at Makati City on January 12, 2018.

Doc. No. 51  
Page No. 12  
Book No. 2  
Series of 2018.



**Atty. Lady Mae A. Clemente**  
PTR No. 3983436; 1-24-18 Pasig  
IBP Membership No. 029705; RSM  
Roll No. 69675  
MCLE Compliance No VI-0003249  
Appointment No. 207 (2017-2018)  
35th Floor One Corporate Centre,  
Julian Vargas Avenue corner Meralco Avenue,  
Ortigas Center, Pasig City

**CERTIFICATION OF INDEPENDENT DIRECTOR**

I, **SERGIO R. ORTIZ-LUIS, JR.**, Filipino, of legal age and a resident of 151 cor. 3<sup>rd</sup> St., & 10<sup>th</sup> Ave., Riverside Village, Pasig City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **PHILIPPINE ESTATES CORPORATION** and have been its independent director since 2011.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

| COMPANY/ORGANIZATION                    | POSITION/RELATIONSHIP                | PERIOD OF SERVICE |
|---|--------------------------------------|-------------------|
| Acesite (Phils.) Hotel Corporation      | Independent Director                 | 2013-present      |
| Alliance Global                         | Vice Chairman                        | 2007-present      |
| Phil. Chamber of Commerce & Industry    | Honorary Chair/Treasurer             | 2008-present      |
| PHILEXPORT                              | President/CEO                        | 1991-present      |
| ECOP                                    | Past President and Honorary Chairman | 2010-present      |
| Waterfront Philippines, Inc.            | Independent Director                 | 2013-present      |
| Int'l. Chamber of Commerce of the Phils | Founding Director                    | present           |
| Manila Exposition Complex, Inc. (WTC)   | Director                             | present           |
| Consulate of Romania in the Philippines | Honorary Consul General              | 2015-present      |
| The Wellex Group                        | Director                             | present           |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **PHILIPPINE ESTATES CORPORATION**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

| NAME OF DIRECTOR/OFFICER/SUBSTANTIAL SHAREHOLDER | COMPANY | NATURE OF RELATIONSHIP |
|--|---------|------------------------|
| N/A  | N/A     | N/A                    |
|  |         |                        |
|  |         |                        |

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding / I disclose that I am the subject of the following criminal/administrative investigation or proceeding (as the case may be):

| OFFENSE CHARGED/INVESTIGATED | TRIBUNAL OR AGENCY INVOLVED | STATUS |
|------------------------------|-----------------------------|--------|
| N/A                          | N/A                         | N/A    |
|                              |                             |        |
|                              |                             |        |

6. (For those in government service/affiliated with a government agency or GOCC) I have the required written permission or consent from the (head of the agency/department) to be an independent director in , pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

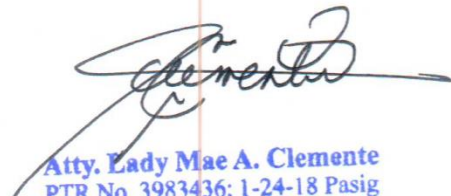
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of **PHILIPPINE ESTATES CORPORATION** of any changes in the abovementioned information within five days from its occurrence.

Done this \_\_\_\_\_ of \_\_\_\_\_, 2018 at AUG 14 2018.

  
**SERGIO R. ORTIZ-LUIS, JR.**  
Affiant

SUBSCRIBED AND SWORN to before me this 14 day of AUG 2018 at Pasig City  
affiant personally appeared before me and exhibited to me his OSCA ID No. 0580 issued at Cabiao, Nueva Ecija.

Doc. No. 52;  
Page No. 12;  
Book No. 2;  
Series of 2018.

  
**Atty. Lady Mae A. Clemente**  
PTR No. 3983436; 1-24-18 Pasig  
IBP Membership No. 029705; RSM  
Ro# No. 69675  
MCLE Compliance No VI-0003249  
Appointment No. 207 (2017-2018)  
35th Floor One Corporate Centre,  
Julian Vargas Avenue corner Meralco Avenue,  
Ortigas Center, Pasig City

UNDERTAKING

A copy of SEC 20-IS will be provided free of charge written request to the following :

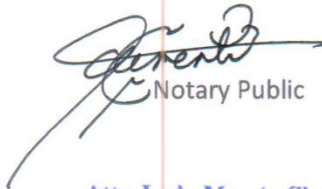
CORPORATE SECRETARY  
Philippine Estates Corporation  
Units 3503 and 3504  
35<sup>th</sup> Floor, One Corporate Center  
Julia Vargas Ave., corner Meralco Ave.  
Ortigas Center, Pasig City  
Metro Manila

PART III

After reasonable inquiry and to the best knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on AUG 14 2018, 2018.

  
ATTY. MARIEL L. FRANCISCO  
Assistant Corporate Secretary  
TIM : 224-150-060

14 AUG 2018  
Subscribed and sworn to before me this \_\_\_\_\_ at Pasig City, affiant  
exhibiting to me her IBP ID with Roll No. 57260.

  
Notary Public

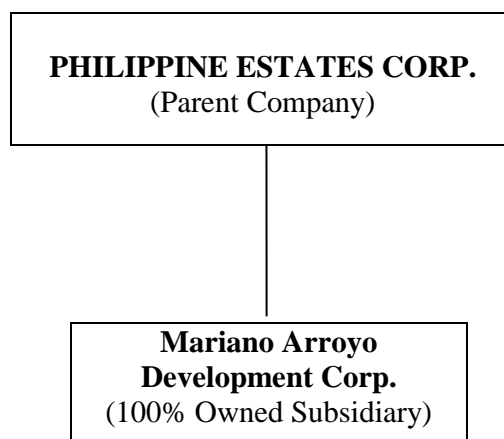
Doc. No. 53 ;  
Page No. 12 ;  
Book No. 2 ;  
Series of 2018.

Atty. Lady Mae A. Clemente  
PTR No. 3983436; I-24-18 Pasig  
IBP Membership No. 029705; RSM  
Roll No. 69675  
MCLE Compliance No. VI-0003249  
Appointment No. 207 (2017-2018)  
35<sup>th</sup> Floor One Corporate Centre,  
Julian Vargas Avenue corner Meralco Avenue,  
Ortigas Center, Pasig City

# **MANAGEMENT'S REPORT**

(Note: Audited Financial Statement and Interim Financial Statement is hereto attached as Annex "A" and made as an integral part hereof.)

Conglomerate map showing the relationship between parent company and its subsidiary.



## **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. 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.

## **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.

## **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial years except for the following amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2017.

*PAS 7 (Amendment), Statement of Cash Flows – Disclosure Initiative.* The amendment requires to provide disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendment resulted in disclosure of a reconciliation of liabilities arising from financing activities, reflecting both changes arising from cash flows and non-cash changes. The transitional provisions of these amendments provide exemption from presenting comparative information upon its initial application. Consequently, the comparative information for the preceding period is not presented on the Group's consolidated financial statements (see Note 33).

*PAS 12 (Amendments), Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* These amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.

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

## **New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2017**

Standards issued but not yet effective up to the date of the Group's 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 2014-2016 Cycle*

The Annual Improvements to PFRS 2014-2016 Cycle sets out the amendments to PFRS 1, PFRS 12 and PAS 28. The amendments to PFRS 1 and PAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendments to PAS 28 shall be applied retrospectively with earlier application permitted.

The annual improvements addressed the following issues:



*PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards – 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 (Amendments), Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value.* The amendments 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 application of the above improvements will have no significant 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 are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The amendments will not have a 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 are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The amendment has no material 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 will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

*PFRS 9, Financial Instruments (2014).* The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement 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 standard is to be effective no earlier than the annual periods beginning January 1, 2018, with earlier application permitted.

The management does not anticipate that the application of PFRS 9 will have a significant impact on the Group's consolidated financial statements as the Group's AFS financial assets will continue to be measured at fair value with fair value recognize in the other comprehensive income, and debt instruments will continue to be measured at amortized cost.

*PFRS 15, Revenue from Contracts with Customers.* This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. 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. An entity recognizes revenue 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. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The new standard is not expected to have an impact on the Group's consolidated financial statements.

*PFRS 15 (Amendments), Revenue from Contracts with Customers – Clarifications to PFRS 15 Revenue from Contracts with Customers.* This addresses clarifying amendments to PFRS 15 and introduced a transitional relief for entities applying the standard for the first time. The focus of these amendments is on clarifying the application of PFRS 15 when (a) identifying performance obligations by clarifying how to apply the concept of 'distinct', (b) determining whether an entity is acting as principal or an agent in a transaction by clarifying how to apply the control principle, and (c) assessing whether a license transfers to a customer over time or at a point in time by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights. The amendments also add two practical expedients to the transition requirements of PFRS 15 for completed contracts under the full retrospective transition approach and contract modifications at transition. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The new standard is not expected to have an impact 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. This interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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

*Philippine Interpretations Committee (PIC) Question & Answer (Q&A) No. 2016-04, Application of PFRS 15, "Revenue from Contracts with Customers," on Sale of Residential Properties under Pre-Completion Contracts.* This provides implementation guidance, in relation to the mandatory adoption of the new revenue accounting standard in 2018, specifically on accounting for revenue from the sale of a residential property unit under pre-completion stage by a real estate developer that enters into a Contract to Sell (CTS) with a buyer – whether the sale meet the criteria for revenue recognition over time. The PIC concluded that the sales of residential properties under pre-completion stage meet the third criterion under paragraph 35(c) of PFRS 15; and therefore, revenue therefrom shall be recognized over time.

The interpretation is not expected to have an impact on the Group's consolidated financial statements.

*PFRS 9 (Amendment), Financial Instruments – Prepayment Features with Negative Compensation.* This addresses the concerns about how PFRS 9 classifies particular repayable financial assets. The amendment 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 amendment will not have a significant impact on the disclosures and amounts recognized 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 standard will have an impact on the recognition of lease expenses, noncurrent assets and liabilities.

### **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 statement 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.

#### *Changes in the ownership interests in existing subsidiary*

Changes in the ownership interests in subsidiary that do not result in the loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes to their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent Company.

If the Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any non-controlling interest; (c) recognizes the fair value of consideration received; (d) recognizes the fair value of any investment retained; (e) recognizes any surplus or deficit in the consolidated statement of comprehensive income; and (f) reclassifies the parent's share of components previously recognized in consolidated statement of comprehensive income to the consolidated statement of comprehensive income or retained earnings, as appropriate.

#### *Non-controlling interests*

Non-controlling interest represents the portion of the net assets of consolidated subsidiaries not held by the Group, and is presented separately in the consolidated statements of comprehensive income, consolidated statement of changes in equity and within the equity section of the consolidated statement of financial position, separate from the Company's equity. Non-controlling interest share in the losses even if the losses exceed the non-controlling equity interest in the subsidiary.

## Audited Financial Statements and Interim Financial Statements

There were no disagreements with the former and present accountants and auditors on any matter of accounting and financial disclosures.

### Reconciliation of retained earnings available for dividend declaration.

## PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY

### Consolidated Statements of Changes in Equity as of December 31, 2017

|   |                                |
|---|--------------------------------|
| <b>CAPITAL STOCK -</b>                            | <b>PhP 1,445,549,830</b>       |
| <b>DEFICIT</b>                                    |                                |
| At beginning of year                              | (395,199,637)                  |
| Net income for the year                           | <u>19,294,079</u>              |
| At end of year                                    | (375,905,558)                  |
| <b>RE-MEASUREMENT GAIN ON RETIREMENT BENEFITS</b> |                                |
| At beginning of year                              | 3,276,350                      |
| Re-measurement gain for the year                  | <u>365,048</u>                 |
| At end of year                                    | 3,641,398                      |
|   | <b><u>PhP1,073,285,670</u></b> |

\*Based on the above reconciliation, no dividends would be declared as of

### Financial Soundness Indicators in two comparative periods.

| <u>INDICATOR</u>         | <u>2017</u> | <u>2016</u> |
|--------------------------|-------------|-------------|
| Current Ratio            | 4.73:1      | 6.27:1      |
| Debt-to-Equity Ratio     | 0.50:1      | 0.34:1      |
| Asset-to-Equity Ratio    | 1.50:1      | 1.34:1      |
| Return on Sales          | 5.20%       | 2.84%       |
| Past Due Ratio           | 17%         | NA          |
| Gross Profit Rate        | 60.46%      | 58.86%      |
| Working Capital Turnover | 0.46        | 0.10        |
| Sales Projection         | 500M        | 200M        |
| Sales Variance           | -25.81%     | -35.25%     |

## NATURE AND SCOPE OF BUSINESS OF THE REGISTRANT

The Company was incorporated on May 30, 1983 as “Philippine Cocoa Estates Corporation” under Securities and Exchange Commission (SEC) Registration No. 11297, 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 utilizing state-of-the-art design and technology to build projects with the highest quality and value.

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 PhP10.00 to PhP1.00 per share.

Towards achieving its corporate vision, the Company filed an application to increase its authorized capital stock from PhP300 Million to PhP5 Billion. Out of this increase of PhP4.7 Billion, the amount of PhP1,194,333,800.00 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 Company of forty five (45) parcels of land valued at PhP1,161,833,800.00, while a smaller portion of the subscription, amounting to PhP32,500,000.00 was paid through conversion of debt into equity. The increase in authorized capital stock was approved by the SEC on March 26, 1997.

### **(2) Business 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 immediately 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. Based on the study conducted, the following are the projects were undertaken by the Company:

### **COMPLETED PROJECTS:**

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

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

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

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

**3. *Pacific Grand Villas Phase I.***

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

**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.

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

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

**6. *Chateaux Geneva.***

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

**ONGOING / CURRENT PROJECTS:**

• ***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.

• ***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..

• ***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.

- ***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.

## **PROJECT 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 1.75 Billion gross revenue upon completion of the project..

- 2) ***Wellford Homes Phase 2***

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 1.2 Billion 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, two medium rise condominium project in one of its prime and highly accessible properties in Mactan, Cebu. Located in Barangay Suba-basbas in the City of LapuLapu, the project will offer around 205 condo units and is expected to generate for the Company approximately P 300M in Revenue. Launch is expected by 4<sup>th</sup> quarter of 2018.

- 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.

**5) 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 JGENorth, 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.

**FINANCIAL AND OTHER INFORMATION:**

a.) Information Required:

(1) The Audited Financial Statement as of 31 December 2017 are attached hereto. The notes to Financial Statements, as well as Statement of Management Responsibility, and schedules required under Part IV(C) OF RULE 68 is included in the Annual Report (Form 17-A).

Also attached hereto are the Interim Financial Statements as of June 30, 2018 being also required under PART IV(C) OF RULE 68 (SEC Form 17-Q).

**(2) MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN/RESULTS OF OPERATIONS.**

**A) FULL FISCAL YEAR:**

In 2017, the Company was able to post a consolidated net sales of Php370.96M showing an increase of Php 301.46M or 433.75% compared to Php69.50M sales of 2016. As result the Company managed to have a Net Income after tax of Php19.29M, an increase of 17.32M or 879.18% compared to Php 1.97M of 2016.

The Company's current ratio registered at 1:4.73. Current Assets reached P 1.13B while Current Liabilities registered at P 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 P 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.

| <u>INDICATOR</u>         | <u>2017</u> | <u>2016</u> |
|--------------------------|-------------|-------------|
| Return on Sales          | 5.20%       | 2.84%       |
| Past Due Ratio           | 17%         | NA          |
| Gross Profit Rate        | 60.46%      | 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.

## **ANALYSIS OF PRIOR YEAR OPERATIONS AND FINANCIAL CONDITION:**

### **YEAR ENDED DECEMBER 31, 2016 VS. YEAR ENDED DECEMBER 31, 2015**

#### Results of Operations:

In 2016, the Company was able to post a consolidated net sales of Php 69.50M which shows a decrease of Php54.3M or 43.86% compared to Php 123.80M sales of 2015.. Notwithstanding the slump in sales the Company manage to have a net income after tax of Php1.97M, or Php0.87M higher than 2015’s Php1.11M, 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 P 870.30M while Current Liabilities registered at P 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 P 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.

| <b>INDICATOR</b>         | <b><u>2016</u></b> | <b><u>2015</u></b> |
|--------------------------|--------------------|--------------------|
| 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 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

#### **YEAR ENDED DECEMBER 31, 2015 VS. YEAR ENDED DECEMBER 31, 2014**

In the year 2015, the Company was able to post a consolidated net sales of Php123.80M which shows an increase of Php5.09M or 4.29% compared to Php118.71M sales of 2014.

The Company’s current ratio registered at 1:5.18. Current Assets reached P883.336M while Current Liabilities registered at P170.690M. Debt-to-equity ratio registered at 1:0.37. The Balance Sheet shows accounts indicative of positive liquidity condition. Total assets registered at 1.442B.

Comparative Top Key Performance Indicators of the Company:

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

- f. 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.
- g. 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.
- h. Gross Profit Margin – Measures effectiveness of pricing and control of project development cost. This is derived by dividing gross profit over net sales.
- i. 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 Cost of Sales over Net Working Capital.
- j. Variance Analysis – Another tool that measures efficiency on how the actual sales were attained via-a-vis forecasted sales.

| <u>INDICATOR</u>         | <u>2015</u> | <u>2014</u> |
|--------------------------|-------------|-------------|
| 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 Variance           | 4%          | -24.04%     |

Financial Condition:

Causes of material changes from period to period of financial statements

- a) Current Trade Receivables – the decrease of 29.83% was due to improved collection on sales
- b) Accounts Payable and Accrued Expenses – the decrease of 29.15% was due to payment to contractors and suppliers
- c) Retention Payable and Guaranty bonds – the 3.92% decrease pertains to the 10% retained payment of each progress billing of contractors to be paid until full completion of the contract of on-going projects.
- d) Deferred Gross Profit – the increase of 3.48% was due to sales generated for the year

## YEAR ENDED DECEMBER 31, 2014 VS. YEAR ENDED DECEMBER 31, 2013.

In the year 2014, the company was able to post a consolidated net sales of Php118.71M which shows a decrease of Php71.07M or 37% compared to Php189.78M achievement of 2013.

The Company's current ratio registered at 3.99:1. Current Assets reached Php817.886M while Current Liabilities registered at Php205.184M. Debt-to-equity ratio registered at 0.38:1. The balance sheet shows accounts indicative of positive liquidity condition. Total assets registered at Php1.455B.

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 Cost of Sales over Net Working Capital.
- e) Variance Analysis – Another tool that measures efficiency on how the actual sales were attained via-a-vis forecasted sales.

| <u>INDICATOR</u>         | <u>2014</u> | <u>2013</u> |
|--------------------------|-------------|-------------|
| Return on Sales          | 11.26%      | 18.72%      |
| Past Due Ratio           | 15.17%      | 28.09%      |
| Gross Profit Rate        | 53.02%      | 43.30%      |
| Working Capital Turnover | 0.095       | 0.098       |
| Sales Variance           | -24.04%     | -9.08%      |

Financial Condition:

Causes of material changes from period to period of financial statements

- a) Cash and Cash Equivalents – the significant increase of 391.56% was basically attributable to improved collection on sales, proceeds from loans and settlement from Kumassie plantation
- b) Prepayments and other current assets – the 11.98% decrease was due to usage of creditable withholding taxes.
- c) Current Trade Receivables – the decrease of 12.14% was due to improved collection on sales
- d) Deferred Tax Liability – the 16.00% decrease was due to adjustment on Deferred Gross Profit

- e) Accounts Payable and Accrued Expenses – the decrease of 14.60% was due to payment to contractors and suppliers
  
- f) Loans Payable – the increase of 7.52% was the result of additional loan availed from CV Financial Corporation
  
- g) Retention Payable and Guaranty Bonds – The 26.45% decrease pertains to the 10% retained payment of each progress billing of contractors to be paid until full completion of the contract of on-going projects.
  
- h) Deferred Gross Profit – the increase of 20.99% was due to sales generated for the year.
  
- i) Retirement benefit liability – the 82% decrease was due to the revaluation of retirement benefit obligation based on the expense recognized in 2013.



108012018001856



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

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SEC Registration No. 0000112978  
Company Name PHIL. ESTATES CORP.  
Industry Classification  
Company Type Stock Corporation

Document Information

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Document ID 108012018001856  
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Department CFD  
Remarks





SEC Number 112978

File Number \_\_\_\_\_

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**PHILIPPINE ESTATES CORPORATION**

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**Company's Full Name**

**<sup>35TH</sup> Flr. One Corporate Centre, Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City**

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**Company's Address**

**637-3112**

**Telephone Number**

**DECEMBER 31**

**Fiscal Year Ending  
(Month and day)**

**SEC-FORM 17-Q**

**Form Type**

**N.A.**

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**Amendment Designation(If applicable)**

**June 30, 2018**

**Period Ended Date**

**N.A.**

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**Secondary License Type and File Number**

**SECURITIES AND EXCHANGE COMMISSION**

SEC FORM 17-Q

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

- 1. For the quarterly period ended **June 30, 2018**
- 2. Commission identification number **112978**
- 3. BIR Tax Identification No. **000-263-366**

**PHILIPPINE ESTATES CORPORATION**

- 4. Exact name of registrant as specified in its charter

**Metro Manila, Philippines**

- 5. Province, country or other jurisdiction of incorporation or organization

- 6. Industry Classification Code: SEC Use Only

- 7. Address of issuer's principal office  
**35<sup>th</sup> Flr., One Corporate Centre, Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City**

- 8. Issuer's telephone number, including area code  
**(632) 637-3112**
- 9. Former name, former address and former fiscal year, if changed since last report **NA**

- 10. Securities registered pursuant to Section 4 and 8 of the RSA: Common shares **5,000,000,000** with par Value of P1.00 per share

Number of Shares Common Stock Issued Outstanding: **1,445,549,830 Common Shares**

**Amount of Debt Outstanding: P 123,250,981 (as per Financial Statements)**

- 11. Are any or all of the securities listed on the Philippine Stock Exchange?  
Yes[**x**] No[ ]

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

**PHILIPPINE STOCK EXCHANGE COMMON SHARES**

- 12. Indicate by check mark whether the registrant:

- a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 hereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such report)  
Yes[**x**] No[ ]
- b) has been subject to such filing requirements for the past 90 days  
Yes[**X**] No[ ]

## **PART I – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

The Quarterly Financial Statements of the Company for the period ending June 30, 2018 are incorporated herein by reference and attached as an integral part of this Quarterly Report.

#### **Statement of Compliance**

The Financial Statements of the Company have been prepared in accordance with Statements of Financial Accounting Standards of the Philippines issued by the Accounting Standards Council.

#### **Earnings per Share**

Basic Earnings per share is determined by dividing the Net Income by the weighted average number of shares issued and subscribed during the period.

#### **Financial Information**

- a. The management maintains the same system of accounting policies and methods of computation in the Interim Financial Statements.
- b. There were no changes in accounting estimates of amounts reported in interim periods of current financial year or even in prior financial years
- c. There were no issuances, repurchases and repayments of equity securities
- d. There were no changes in the composition of the issuer during the interim period i.e. Business Combinations, Acquisitions, or Disposal of Subsidiaries and Long-term Investments, Restructuring and Discontinuing operations
- f. There were no dividends declared and paid on the Company's Common Equity.
- g. There have been no material events that happened subsequent to the interim period that needs disclosure herein.
- h. The 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 company's operations.

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

### **1. Plan of Operation**

The Company is continuously evaluating number of alternatives and measures for generating liquidity to meet material commitments for capital expenditures for the development of the projects. Some of the more significant measures are as follows:

- Intensive collection efforts to keep the Accounts Receivable current thus reducing past due accounts
- Launching of subdivision projects catering to the middle income market
- Regular review of development costs matching the pace of development with fund availability and thorough review of sales price
- Negotiations for the purchase of land for future development
- Developing an extensive network source of short-term to medium-term financing

The Company continues to develop and generate cash flow through the following projects:

- ***Pacific Grand Villas Phase IV-A & B***

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. The project was sold out by June, 2018.

- ***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. The project was sold out by June, 2018.

- ***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. The project is 96% sold out with only 23 units remaining. The Company expects to sell out the remaining units by 3<sup>rd</sup> quarter of 2018.

### **7. *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. To date, Wellford Homes only has 43 units remaining. The Company expect sell-out the remaining units by the end of the year.

## 2. Financial Position

The Company maintained its Financial Position as its total assets stood at P1.61B. Current ratio registered at 4.42:1. Current assets reached P1.15B while current liabilities amounted only to P0.26B. Debt –to- equity ratio stood at 0.50:1 The Balance Sheet shows that accounts are indicators of positive liquidity condition. Hereunder are the significant or material changes in the Balance Sheet accounts as of June, 2018.

Causes for material changes (5% or more) from period to period:

- a. Cash and Cash Equivalentents – the 18% increase is the result of improved collection from sales and fresh loan availments from CV Financial Corporation, Luzon Development Bank and Pag-Ibig Fund.
- b. Prepayments and Other Current Assets – the 8% increase is due to remittance of creditable withholding taxes on units sold.
- c. Non-current Trade Receivables - the 18% decrease is due to improved collection efforts. and cancellation of delinquent accounts, which constitute
- d. Accounts Payable and Accrued Expenses – the decrease of 6% was due to timely payments made to contractors and suppliers.
- e. Borrowings - the increase of 20% was the result of additional loans for working capital from CV Financial Corporation, Luzon Development Bank and Pag-Ibig Fund.
- f. Deferred Gross Profit – the increase of 17% was due to installment sales generated during the 2nd quarter of 2018.
- g. Customers Deposits – the decrease of 15% is due to the immediate conversion and documentation of Customer Reservations to documented sales.
- h. Retention Payable and Guaranty Bonds – the increase of 6% pertains to the compulsory 10% of total contract price to be held in reserve from all progress billings of contractors. The retention will only be released one year after full completion of the contract.
- i. Advances from Related Parties – the decrease of 18% was due to offsetting and consolidation of Accounts Receivable against Advances from Affiliates.

## 3. Result of Operations

Comparative Sales for the 2Q 2018 amounting to ₱ 55.75M showed an increase of ₱ 29.75M or 114% compared to the Sales for same period in 2017 of ₱ 26.00M. Gross Profit jumped

to ₱35.53M from ₱ 14.58M, up by ₱ 20.95M or 144% in compared to the same period last year.

Operating Expenses for 2Q 2018 however, increased to ₱ 26.50M compared to the same period in 2017 of ₱ 15.37M, showing an increase of ₱ 11.13M or 72%. The increase in both Sales Commission and Marketing Expenses contributed to most to the increase. Other Income for the 2Q 2018 jumped to ₱ 3.19M compared to ₱ 0.47M during the same period in 2017, an increase of ₱ 2.72M or 579%.

Net Income Before Tax for 2Q 2018 increased as well compared to the same period in 2017. Net Income stood at ₱ .678M from ₱ -0.332M or an increase of ₱ 1.01M.

Comparative Top Key Performance Indicators of the Company:

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

- k. Sales – The Company gauges 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.
- l. 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.
- m. Gross Profit Margin – Measures effectiveness of pricing and control of project development cost. This is derived by dividing Gross Profit over Net Sales.
- n. Working Capital – The Company's ability to meet obligations is measured by determining Current Assets over Current Liabilities. Working Capital turnover is calculated by dividing Sales over Average Net Working Capital.

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

| <u>INDICATOR</u>         | <u>Q2 2018</u> | <u>Q2 2017</u> |
|--------------------------|----------------|----------------|
| Return on sales          | 1.22%          | -1.28%         |
| Past due ratio           | 14.00%         | 45.00%         |
| Gross Profit rate        | 63.72%         | 56.08%         |
| Working Capital Turnover | 0.06           | 0.09           |

#### **4. Other Notes to 2Q 2018 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 may have a material impact on sales is the economic situation. The seemingly improving economic situation has already translated into a significant buying mood for the real estate market. Overall, there are no contingencies that may affect future operations of the Company. In such eventuality, the resolution of this is 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. These are well within the regular cash flow budget coming from internally generated funds and short-term borrowings from banks and other financial institutions.

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

Projects are launched at no particular 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 and other financial institution, private or government. The Company periodically reviews its capital structure and existing obligations.

#### **Compliance with Leading Practice on Corporate Governance**

The Company has adopted the Manual of Corporate Governance and full compliance with the same has been made since the adoption of the Manual.

The Company is taking further steps to enhance adherence to principles and practices of good corporate governance. Among these are as follows:

- Organizational and Procedural Controls
- Independent Audit Mechanism
- Regular Reporting to Audit Committee
- Creation of Board Committees



- Financial and Operational Reporting
- Compliance to Government Regulatory and Reportorial Requirements
- Disclosure of Transparency to the Public

There was no deviation committed by any of the Company's directors and/or officers on the Manual of Corporate Governance during the period covered in this report.

**PART II – OTHER INFORMATION**

Disclosure not made under SEC FORM 17-C: **NONE**

**PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY**  
**BALANCE SHEET**  
**June 30, 2018**  
**(With Comparative Figures for 2017)**

|                                       | <b>Interim F/S<br/>June 30, 2018</b> | <b>Audited F/S<br/>Dec 31, 2017</b> |
|---------------------------------------|--------------------------------------|-------------------------------------|
| <b>ASSETS</b>                         |                                      |                                     |
| <b>Current Assets</b>                 |                                      |                                     |
| Cash and Cash Equivalents             | 15,787,326                           | 13,387,986                          |
| Trade and other receivables, net      | 459,052,586                          | 436,189,465                         |
| Real estate inventories, net          | 649,628,254                          | 653,812,080                         |
| Prepayments and other current assets  | 30,040,692                           | 27,935,337                          |
|                                       | <u>1,154,508,857</u>                 | <u>1,131,324,868</u>                |
| <b>Non-current Assets</b>             |                                      |                                     |
| Non-current trade receivables         | 72,865,417                           | 88,757,164                          |
| Advances to related parties           | 312,908,506                          | 315,981,430                         |
| Investment property                   | 13,572,016                           | 13,572,016                          |
| Property and equipment, net           | 41,427,123                           | 42,584,820                          |
| Intangible Assets                     | 350,000                              | -                                   |
| Deferred tax assets                   | 10,704,027                           | 10,704,027                          |
| Other assets                          | 6,780,549                            | 6,648,559                           |
|                                       | <u>458,607,639</u>                   | <u>478,248,016</u>                  |
| <b>TOTAL ASSETS</b>                   | <b><u>1,613,116,496</u></b>          | <b><u>1,609,572,884</u></b>         |
| <b>LIABILITIES AND EQUITY</b>         |                                      |                                     |
| <b>Current Liabilities</b>            |                                      |                                     |
| Accounts payable and accrued expenses | 61,834,820                           | 65,823,994                          |
| Borrowings                            | 70,929,315                           | 58,980,789                          |
| Deferred gross profit                 | 125,081,229                          | 106,919,701                         |
| Customers' deposits                   | 6,234,110                            | 7,309,856                           |
|                                       | <u>264,079,474</u>                   | <u>239,034,340</u>                  |
| <b>Non-current Liabilities</b>        |                                      |                                     |
| Retention payable and guaranty bonds  | 25,032,576                           | 23,641,679                          |
| Borrowings (net of current portion)   | 52,321,666                           | 52,321,666                          |
| Advances from related parties         | 128,396,792                          | 155,841,281                         |
| Deferred Tax Liabilities              | 59,442,755                           | 59,442,755                          |
| Retirement benefits obligation        | 6,005,493                            | 6,005,493                           |
|                                       | <u>271,199,281</u>                   | <u>297,252,874</u>                  |
| <b>Total liabilities</b>              | <u>535,278,756</u>                   | <u>536,287,214</u>                  |
| <b>Equity</b>                         |                                      |                                     |
| Capital Stock                         | 1,445,549,830                        | 1,445,549,830                       |
| Deficit                               | (367,712,089)                        | (372,264,160)                       |
| <b>Total equity</b>                   | <u>1,077,837,740</u>                 | <u>1,073,285,670</u>                |
| <b>Total liabilities and equity</b>   | <b><u>1,613,116,496</u></b>          | <b><u>1,609,572,884</u></b>         |

**PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY**  
**STATEMENT OF INCOME AND DEFICIT**  
**For the Six-Month Period ended June 30, 2018**

|   | <b>2018</b>          | <b>2017</b>          | <b>2018</b>          | <b>2017</b>          |
|---|----------------------|----------------------|----------------------|----------------------|
|   | <b>Apr-June</b>      | <b>Apr-June</b>      | <b>Year to date</b>  | <b>Year to date</b>  |
| REAL ESTATE SALES                       | 55,755,919           | 26,001,042           | 135,354,483          | 69,375,318           |
| LESS: COST OF SALES                     | 20,227,665           | 11,418,396           | 50,393,528           | 29,453,588           |
| GROSS PROFIT                            | 35,528,254           | 14,582,646           | 84,960,955           | 39,921,730           |
| DEFERRED GROSS PROFIT                   | 14,455,464           | 4,167,999            | 37,691,328           | 14,457,851           |
| REALIZED GROSS PROFIT ON CURRENT YEAR   | 21,072,790           | 10,414,647           | 47,269,627           | 25,463,879           |
| ADD: REALIZED GROSS PROFIT - PRIOR YEAR | 5,723,357            | 6,831,843            | 11,735,259           | 8,742,026            |
| TOTAL REALIZED GROSS PROFIT             | 26,796,147           | 17,246,490           | 59,004,886           | 34,205,905           |
| OPERATING EXPENSES                      | 26,507,251           | 15,375,129           | 52,169,591           | 29,744,444           |
| NET OPERATING INCOME                    | 288,896              | 1,871,361            | 6,835,295            | 4,461,462            |
| FINANCE COST                            | (2,802,339)          | (2,673,075)          | (6,106,112)          | (4,639,109)          |
| OTHER INCOME (EXPENSES)                 | 3,191,815            | 469,782              | 3,822,889            | 952,349              |
| NET INCOME (LOSS)                       | 678,373              | (331,932)            | 4,552,071            | 774,701              |
| LESS: INCOME TAX                        | -                    | -                    | -                    | 265,330              |
| DEFERRED INCOME TAX                     | -                    | -                    | -                    | -                    |
| NET INCOME (LOSS) AFTER PROVISION       | <b>678,373</b>       | <b>(331,932)</b>     | <b>4,552,071</b>     | <b>509,371</b>       |
| RETAINED EARNINGS, BEGINNING            | (368,390,462)        | (391,101,512)        | (372,264,160)        | (391,942,815)        |
| NET INCOME (LOSS)                       | 678,373              | (331,932)            | 4,552,071            | 509,371              |
| RETAINED EARNINGS, END                  | <b>(367,712,089)</b> | <b>(391,433,444)</b> | <b>(367,712,089)</b> | <b>(391,433,444)</b> |
| EARNINGS (LOSS) PER SHARE *             | 0.00                 | (0.00)               | 0.00                 | 0.00                 |

\* Based on Weighted Average number of common shares outstanding

1,445,549,830

**PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY**  
**STATEMENT OF CASH FLOW**  
**June 30, 2018**  
**(With Comparative Figures for 2017)**

|  | <b>June 2018</b>   | <b>June 2017</b>      |
|--|--------------------|-----------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>  |                    |                       |
| Net Income (Loss)  | 4,552,071          | 509,371               |
| Adjustment to reconcile net income (loss) to net cash provided by operating activities |                    |                       |
| Depreciation and amortization  | 460,419            | 587,066               |
| Amortization of deferred charges   | -                  | -                     |
| Gain on sale of property and equipment   | -                  | -                     |
| Acquisition of property  | -                  | -                     |
| Provision for doubtful accounts  | -                  | -                     |
| Decrease (increase) in assets:   |                    |                       |
| Receivables  | (3,790,529)        | (55,819,031)          |
| Inventories  | (1,194,370)        | 10,913,918            |
| Intangible Assets  | (350,000)          | -                     |
| Prepaid Expenses   | (547,780)          | (943,688)             |
| Other Assets   | (1,424,235)        | (838,626)             |
| Increase (decrease) in liabilities   |                    |                       |
| Accounts payable   | (3,736,341)        | 30,458,156            |
| Accrued expenses   | 23,308,938         | 16,818,187            |
| Deferred Income  | 19,231,519         | 6,608,599             |
| <b>Net cash provided by (used) in operating activities</b>                             | <b>36,509,692</b>  | <b>8,293,952</b>      |
| <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>  |                    |                       |
| Additions to raw land inventory  | -                  | -                     |
| Additions to equipment   | (372,714)          | (538,680)             |
| Deductions from Real estate held for sale  | -                  | -                     |
| Additions to project development cost  | (5,919,898)        | (1,887,639)           |
| Proceeds from insurance claims   | -                  | -                     |
| Proceeds from sale of property and equipment   | -                  | -                     |
| <b>Net cash provided by (used) in investing activities</b>                             | <b>(6,292,612)</b> | <b>(2,426,318.79)</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>  |                    |                       |
| Additional deposits on subscription  | -                  | -                     |
| Net increase in due to affiliates  | (27,552,410)       | (1,826)               |
| Net increase in due to stockholders  | -                  | -                     |
| Payment of long-term debts   | -                  | -                     |
| Payment of short-term borrowings   | -                  | -                     |
| Proceeds from short-term borrowings  | -                  | -                     |
| Net cash provided by (used) in financing activities                                    | (27,552,410)       | (1,826)               |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | <b>2,664,670</b>   | <b>4,961,847</b>      |
| <b>ADJUSTMENT OF PRIOR PERIODS</b>   | -                  | -                     |
| <b>CASH, BEGINNING</b>   | <b>13,122,656</b>  | <b>11,484,600</b>     |
| <b>CASH, END</b>   | <b>15,787,326</b>  | <b>16,446,447</b>     |

**PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Six-Month Period ended June, 2018**  
**(With Comparative Figures for 2017)**

|                                       | CAPITAL STOCK        | DEFICIT              | TOTAL                |
|---------------------------------------|----------------------|----------------------|----------------------|
| Balance at December 31, 2016          | 1,445,549,829        | (391,942,815)        | 1,053,607,014        |
| Net Income (Loss) as of June 30, 2017 |                      | 509,371              | 509,371              |
| <b>Balance at June 30, 2017</b>       | <b>1,445,549,829</b> | <b>(391,433,444)</b> | <b>1,054,116,385</b> |
| Balance at December 31, 2017          | 1,445,549,829        | (372,264,160)        | 1,073,285,669        |
| Net Income (Loss) as of June 30, 2018 |                      | 4,552,071            | 4,552,071            |
| <b>Balance at June 30, 2018</b>       | <b>1,445,549,829</b> | <b>(367,712,089)</b> | <b>1,077,837,740</b> |

**PROPERTY AND EQUIPMENT (net)**

Property and equipment as of June 30, 2018 is as follows:

**PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY**  
**PROPERTY, PLANT AND EQUIPMENT**  
**As of June 30, 2018**

|                                 | <b>Leasehold<br/>Improvement</b> | <b>Transportation<br/>Equipment</b> | <b>Building,<br/>Machinery,<br/>Furniture &amp;<br/>Fixtures,<br/>Office Equipment</b> | <b>TOTAL</b>       |
|---------------------------------|----------------------------------|-------------------------------------|--|--------------------|
| <i>Cost</i>                     |                                  |                                     |  |                    |
| At January 1, 2018              | 16,547,307                       | 6,302,022                           | 118,781,564  | 141,630,893        |
| Additions                       | -                                | -                                   | 251,996  | 251,996            |
| Disposals                       | -                                | -                                   | -  | -                  |
| <b>June 30, 2018</b>            | <b>16,547,307</b>                | <b>6,302,022</b>                    | <b>119,033,561</b>   | <b>141,882,890</b> |
|                                 |                                  |                                     |  | -                  |
| <i>Accumulated Depreciation</i> |                                  |                                     |  |                    |
| At January 1, 2018              | 16,547,307                       | 4,980,338                           | 78,668,368   | 100,196,013        |
| Additions                       | -                                | 36,653                              | 209,055  | 245,709            |
| Disposals                       | -                                | -                                   | (14,044)   | (14,044)           |
| <b>June 30, 2018</b>            | <b>16,547,307</b>                | <b>5,016,992</b>                    | <b>78,891,468</b>  | <b>100,455,766</b> |
|                                 |                                  |                                     |  | -                  |
| <i>Net Book Value</i>           |                                  |                                     |  |                    |
| At January 1, 2018              | -                                | 1,321,684                           | 40,113,196   | 41,434,880         |
| <b>June 30, 2018</b>            | <b>-</b>                         | <b>1,285,030</b>                    | <b>40,142,093</b>  | <b>41,427,123</b>  |

## BUSINESS SEGMENT INFORMATION

The business segment report of the company as of June 30, 2018 is as follows:

### PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY SEGMENT REPORT JUNE 2018

|                                  | HEAD<br>OFFICE     | DAVAO            | CEBU               | ILOILO             | CONSOLIDATED         |
|----------------------------------|--------------------|------------------|--------------------|--------------------|----------------------|
| Sales                            | -                  | -                | 67,870,923         | 67,483,560         | 135,354,483          |
| Realized Gross Profit            | -                  | -                | 30,647,498         | 28,357,388         | 59,004,886           |
| Other Income                     | 1,623              | 2,026,786        | 963,568            | 830,911            | 3,822,889            |
| Finance Cost                     | 6,100,975          | -                | -                  | 5,137              | 6,106,112            |
| Depreciation and<br>Amortization | 1,346,083          | -                | 10,303             | 186,155            | 1,542,541            |
| Other Operating Expenses         | 16,859,681         | (208,420)        | 12,668,080         | 21,307,709         | 50,627,050           |
| <b>SEGMENT ASSETS</b>            | <b>705,851,600</b> | <b>6,296,517</b> | <b>668,934,319</b> | <b>232,034,060</b> | <b>1,613,116,496</b> |
| <b>SEGMENT LIABILITIES</b>       | <b>344,404,005</b> | <b>369,264</b>   | <b>111,806,678</b> | <b>78,698,809</b>  | <b>535,278,755</b>   |





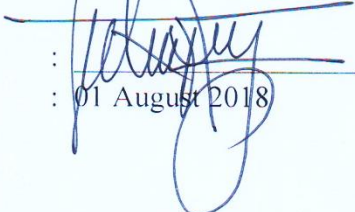
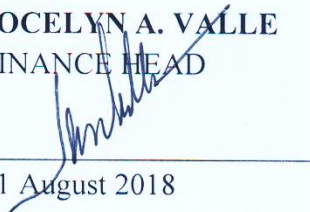
QUALITY.  
OUR DISTINCTION.  
OUR COMMITMENT.

AGING OF RECEIVABLES  
AS OF JUNE 2018

| PROJECT                              | RECEIVABLE BALANCE | NOT YET DUE        | CURRENT        | PAST DUE         |                  |                  |                |                   |                   | TOTAL             |
|--------------------------------------|--------------------|--------------------|----------------|------------------|------------------|------------------|----------------|-------------------|-------------------|-------------------|
|                                      |                    |                    |                | 1-30             | 31-60            | 61-90            | 91-120         | 121-180           | >180              |                   |
| <b>PACIFIC GRAND VILLAS PHASE 1B</b> | <b>37,371,668</b>  | <b>35,721,430</b>  | -              | <b>84,505</b>    | <b>78,552</b>    | <b>69,529</b>    | <b>69,529</b>  | <b>139,059</b>    | <b>1,209,064</b>  | <b>1,650,238</b>  |
| LOT ONLY                             | 14,976,885         | 14,483,195         | -              | 80,094           | 78,552           | 69,529           | 69,529         | 139,059           | 56,928            | 493,690           |
| HOUSE AND LOT                        | 22,394,783         | 21,238,235         | -              | 4,411            | -                | -                | -              | -                 | 1,152,137         | 1,156,548         |
| <b>PACIFIC GRAND VILLAS PHASE 1C</b> | <b>35,526,956</b>  | <b>28,283,330</b>  | -              | <b>6,139,492</b> | <b>103,269</b>   | <b>88,257</b>    | <b>64,182</b>  | <b>137,609</b>    | <b>710,817</b>    | <b>7,243,626</b>  |
| LOT ONLY                             | 4,213,995          | 3,533,248          | -              | 5,600            | 5,504            | 5,409            | 1,858          | 34,260            | 628,115           | 680,746           |
| HOUSE AND LOT                        | 31,312,961         | 24,750,082         | -              | 6,133,891        | 97,765           | 82,847           | 62,325         | 103,349           | 82,702            | 6,562,879         |
| <b>PACIFIC GRAND VILLAS PHASE 4A</b> | <b>68,024,100</b>  | <b>63,439,752</b>  | <b>28,449</b>  | <b>187,795</b>   | <b>134,083</b>   | <b>108,471</b>   | <b>134,978</b> | <b>2,047,511</b>  | <b>1,943,061</b>  | <b>4,555,899</b>  |
| LOT ONLY                             | 31,494,619         | 29,795,522         | -              | 86,501           | 62,103           | 20,028           | 13,167         | 35,520            | 1,481,780         | 1,699,097         |
| HOUSE AND LOT                        | 36,529,481         | 33,644,230         | 28,449         | 101,295          | 71,981           | 88,443           | 121,811        | 2,011,991         | 461,281           | 2,856,802         |
| <b>PACIFIC GRAND VILLAS PHASE 4B</b> | <b>32,605,323</b>  | <b>9,767,706</b>   | <b>14,038</b>  | <b>201,640</b>   | <b>189,974</b>   | <b>140,327</b>   | <b>44,781</b>  | <b>10,170,529</b> | <b>12,076,329</b> | <b>22,823,579</b> |
| LOT ONLY                             | 1,435,856          | 63,641             | -              | -                | -                | -                | -              | -                 | 1,372,214         | 1,372,214         |
| HOUSE AND LOT                        | 31,169,467         | 9,704,064          | 14,038         | 201,640          | 189,974          | 140,327          | 44,781         | 10,170,529        | 10,704,114        | 21,451,365        |
| <b>PACIFIC GRAND TOWNHOMES</b>       | <b>52,403,808</b>  | <b>49,091,444</b>  | <b>198,295</b> | <b>57,595</b>    | <b>15,666</b>    | <b>2,611,494</b> | <b>14,540</b>  | <b>16,905</b>     | <b>397,868</b>    | <b>3,114,068</b>  |
| TOWNHOUSE                            | 52,403,808         | 49,091,444         | 198,295        | 57,595           | 15,666           | 2,611,494        | 14,540         | 16,905            | 397,868           | 3,114,068         |
| <b>CEBU TOTAL</b>                    | <b>225,931,854</b> | <b>186,303,662</b> | <b>240,782</b> | <b>6,671,027</b> | <b>521,544</b>   | <b>3,018,078</b> | <b>328,010</b> | <b>12,511,613</b> | <b>16,337,138</b> | <b>39,387,410</b> |
| <b>CHATEAUX GENEVA</b>               | <b>7,638,967</b>   | <b>1,754,699</b>   | -              | -                | -                | -                | -              | -                 | <b>5,884,268</b>  | <b>5,884,268</b>  |
| LOT ONLY                             | 7,591,339          | 1,754,699          | -              | -                | -                | -                | -              | -                 | 5,836,640         | 5,836,640         |
| HOUSE AND LOT                        | 47,628             | -                  | -              | -                | -                | -                | -              | -                 | 47,628            | 47,628            |
| <b>COSTA SMERALDA</b>                | <b>207,618,278</b> | <b>201,712,274</b> | <b>74,380</b>  | <b>878,650</b>   | <b>2,841,005</b> | <b>109,998</b>   | <b>55,172</b>  | <b>116,952</b>    | <b>1,829,848</b>  | <b>5,831,624</b>  |
| LOT ONLY                             | 111,088,199        | 109,480,957        | 23,614         | 257,235          | 47,269           | 36,274           | 4,406          | -                 | 1,238,442         | 1,583,627         |
| HOUSE AND LOT                        | 96,530,080         | 92,231,316         | 50,766         | 621,414          | 2,793,736        | 73,724           | 50,766         | 116,952           | 591,406           | 4,247,997         |
| <b>WELLFORD HOMES</b>                | <b>44,991,112</b>  | <b>41,667,510</b>  | -              | <b>1,445,474</b> | <b>32,517</b>    | <b>32,517</b>    | <b>20,338</b>  | <b>1,782,755</b>  | <b>10,000</b>     | <b>3,323,602</b>  |
| DUPLEX                               | 44,991,112         | 41,667,510         | -              | 1,445,474        | 32,517           | 32,517           | 20,338         | 1,782,755         | 10,000            | 3,323,602         |
| <b>ILOILO TOTAL</b>                  | <b>260,248,358</b> | <b>245,134,483</b> | <b>74,380</b>  | <b>2,324,124</b> | <b>2,873,522</b> | <b>142,516</b>   | <b>75,510</b>  | <b>1,899,707</b>  | <b>7,724,116</b>  | <b>15,039,494</b> |
| <b>PLASTIC CITY INDUSTRIAL PARK</b>  | <b>5,605,336</b>   |                    |                |                  |                  |                  |                |                   | <b>5,605,336</b>  | <b>5,605,336</b>  |
| <b>EMBASSY POINTE</b>                | <b>8,004,739</b>   |                    |                |                  |                  |                  |                |                   | <b>8,004,739</b>  | <b>8,004,739</b>  |
| <b>METRO MANILA</b>                  | <b>13,610,075</b>  | -                  |                | -                | -                | -                | -              | -                 | <b>13,610,075</b> | <b>13,610,075</b> |
| <b>GRAND TOTAL</b>                   | <b>499,790,287</b> | <b>431,438,145</b> | <b>315,162</b> | <b>8,995,151</b> | <b>3,395,066</b> | <b>3,160,593</b> | <b>403,520</b> | <b>14,411,320</b> | <b>37,671,329</b> | <b>68,036,979</b> |
| <i>* Past Due Ratio</i>              |                    |                    |                | 2%               | 1%               | 1%               | 0%             | 3%                | 8%                | 14%               |

## SIGNATURES

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

|   |   |  |
|---|---|--|
| Issuer  | : | <b>ELVIRA A. TING</b>  |
| Title   | : | <b>PRESIDENT / CEO</b>   |
| Signature   | : |   |
| Date  | : | 01 August 2018   |
| Principal Financial Accounting Officer Controller | : | <b>JOCELYN A. VALLE</b>  |
| Title   | : | <b>FINANCE HEAD</b>  |
| Signature   | : |  |
| Date  | : | 01 August 2018   |

*Philippine Estates Corporation  
and Subsidiary*

*Consolidated Financial Statements  
December 31, 2017 and 2016*

*and*

*Independent Auditors' Report*

**ANTHONY M. YENKO**

**Certified Public Accountant**

Suite 1903-B West Tower, Philippine Stock Exchange Centre, Exchange Road,  
Ortigas Center, Pasig City, Philippines 1605  
em@il: [yenko.cpa@gmail.com](mailto:yenko.cpa@gmail.com) mobile: 0998 541 6356

**PRACTITIONER'S COMPILATION REPORT**

To Management of **PHILIPPINE ESTATES CORPOPORATION and its subsidiaries**  
35F One Corporate Center, Julia Vargas cor. Meralco Avenue  
Ortigas Center, Pasig City

I have compiled the accompanying financial statements of **PHILIPPINE ESTATES CORPOPORATION and its subsidiaries** based on information you have provided. These consolidated financial statements comprise the consolidated statements of financial position of **PHILIPPINE ESTATES CORPOPORATION and its subsidiaries** as at December 31, 2017 and 2016, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

I performed this compilation engagement in accordance with Philippine Standard on Related Services 4410 (Revised), Compilation Engagements.

I have applied my expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with Philippine Financial Reporting Standard. I have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to me to compile these financial statements. Accordingly, I do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with PFRS.

**ANTHONY M. YENKO**  
PRC/BOA Accreditation No. 3172  
Valid until December 31, 2018  
PTR No. 5209175 – January 26, 2018  
Place of Issue - Makati City  
CPA Certificate No. 0096298  
TIN 198-591-063-000

April 18, 2018

APR 26 2018

SUBSCRIBED AND SWORN to before me this \_\_\_ day of \_\_\_\_\_  
MANDALUYONG CITY  
with No. \_\_\_\_\_ as strong proof of identity.

**ATTY. JANICE K. ABUGAN**  
**NOTARY PUBLIC**  
Until Dec. 31, 2018  
IBF No. 021498/ 1-5-2018  
Rizal Chapter  
Roll No. 26390  
MCLB No. V-0004484-10/31/2014  
PTR # 3369955 – 01/05/2018  
Mandaluyong City  
TIN # 116-239-956  
Tel. 631-40-90

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PAGE NO. 52  
BOOK NO. 59  
SERIES OF 2018

STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS



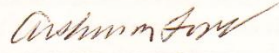
The Management of **PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY** is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with Philippine Financial Reporting 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 or error.

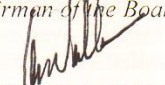
In preparing the Group's consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate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

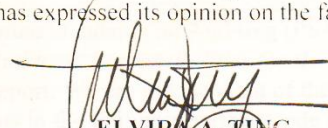
The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

  
**JOCELYN A. VALLE**  
Finance Head

  
**ELVIRA A. TING**  
President / CEO

  
**RICHARD L. RICARDO**  
Treasurer


Signed this 18<sup>th</sup> day of April, 2018

APR 27 2018

MAKATI CITY

SUBSCRIBED AND SWORN TO BEFORE ME, this \_\_\_\_\_ day at \_\_\_\_\_  
affiant(s) exhibiting to me his/her their Id's: \_\_\_\_\_

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Page No. 100  
Book No. 27  
Series 2018

  
**ATTY. JOSHUA P. LAPUZ**  
Notary Public, Makati City  
Until Dec. 31, 2019  
Appointment No. M-82-(2018-2019)  
PTR No. 6607878 Jan. 3, 2018/ Makati  
IBF Lifetime No. 64897 Roll No. 45790  
MCLE Compliance No. V-0019692  
G/E Fedman Bldg., 199 Salcedo St.  
Legaspi Village, Makati City

# Diaz Murillo Dalupan and Company

Certified Public Accountants

## Independent Auditors' Report

To the Board of Directors and Stockholders of  
**PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY**  
35<sup>th</sup> 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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, 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.

### **Local in Touch, Global in Reach**

Head Office : 7th Floor, Don Jacinto Building, Dela Rosa corner Salcedo Sts., Legaspi Village, Makati City 1229 Philippines  
Telephone: +63(2) 894 5892 - 95 / 894 0273 / 844 9421 - 23 / Fax: +63(2) 818 1872  
Cebu Office : Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Phone: +63(32) 415 8108 - 10 / Fax: +63(32) 232 8029  
Davao Office : 3rd Floor Building B Plaza De Luisa, Ramon Magsaysay Avenue, Davao City 8000 Phone/Fax: +63(82) 222 6636  
Website : [www.dmdcpa.com.ph](http://www.dmdcpa.com.ph)

### Valuation of Advances to Related Parties

The advances to related parties represent major part of the total assets. Portion of the advances to related parties pertains to interest bearing unsecured cash advances. Thus, the valuation of the receivables was significant to our audit due to the materiality of the amount.

#### *Our Response*

Our audit procedures to address the risk of material misstatement relating to valuation of advances to related parties, which was considered to be a significant risk, included:

- Obtained understanding on Group's credit and impairment policy.
- Confirmed the necessity and adequacy of impairment provisions by reviewing correspondence and other documentation.
- Checked and evaluated methodologies and assumptions used in performing both individual and collective impairment assessment.
- Inspected financial statements of related parties to verify the collectability of the advances.
- Assessed the related parties' repayment abilities.
- Performed recomputation of recoverable amount against carrying value of advances.

The Group's disclosures about its advances to related parties are included in Note 22.

### 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 prior years' sales for the realization of gross profit.
- Reviewed collections of receivables from current 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, 2017, 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, 2017 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 ease 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**

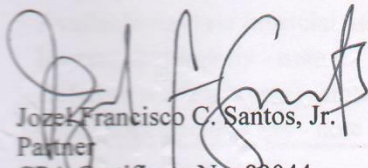
Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until August 11, 2020

SEC Accreditation No. 0192-FR-2, Group A, effective until May 1, 2019

BIR Accreditation No. 08-001911-000-2016, effective until March 17, 2019

By:



Jozel Francisco C. Santos, Jr.

Partner

CPA Certificate No. 89044

SEC Accreditation No. 1070-AR-2, Group A, effective until May 3, 2020

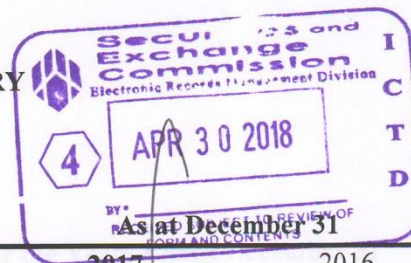
Tax Identification No. 170-035-673

PTR No. 6615254, January 4, 2018, Makati City

BIR Accreditation No. 08-001911-009-2016 effective until March 17, 2019

April 18, 2018

**PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY**  
**Consolidated Statements of Financial Position**



|   | 2017                   | 2016                   |
|---|------------------------|------------------------|
| <b>ASSETS</b>   |                        |                        |
| <b>Current Assets</b>   |                        |                        |
| Cash - note 4   | P 13,387,986           | P 8,963,990            |
| Trade and other receivables (net) - note 5                          | 436,189,465            | 137,665,327            |
| Real estate inventories - note 6                                    | 653,812,080            | 697,065,875            |
| Prepayments and other current assets - note 7                       | 27,935,337             | 26,601,483             |
|   | <b>1,131,324,868</b>   | <b>870,296,675</b>     |
| <b>Noncurrent Assets</b>  |                        |                        |
| Advances to related parties (net) - note 22                         | 315,981,430            | 326,424,390            |
| Trade and other receivables (net of current portion) - net - note 5 | 88,757,164             | 153,668,135            |
| Property and equipment (net) - note 10                              | 42,584,820             | 44,053,190             |
| Available-for-sale financial assets - note 8                        | 12,500,000             | -                      |
| Investment property - note 9  | 1,072,016              | 1,072,016              |
| Deferred tax assets (net) - note 24                                 | 10,704,027             | 8,089,622              |
| Other noncurrent assets - note 11                                   | 6,648,559              | 6,629,818              |
|   | <b>478,248,016</b>     | <b>539,937,171</b>     |
| <b>TOTAL ASSETS</b>   | <b>P 1,609,572,884</b> | <b>P 1,410,233,846</b> |
| <b>LIABILITIES AND EQUITY</b>                                       |                        |                        |
| <b>Current Liabilities</b>  |                        |                        |
| Accounts payable and other liabilities - note 12                    | P 65,823,994           | P 52,840,776           |
| Deferred gross profit - note 16                                     | 106,919,701            | 40,902,333             |
| Borrowings - note 13  | 58,980,789             | 43,432,981             |
| Customers' deposits - note 14                                       | 7,309,856              | 1,597,093              |
|   | <b>239,034,340</b>     | <b>138,773,183</b>     |
| <b>Noncurrent Liabilities</b>                                       |                        |                        |
| Advances from related parties - note 22                             | 155,841,281            | 123,756,261            |
| Borrowings (net of current portion) - note 13                       | 52,321,666             | 34,902,442             |
| Retention payable and refundable bonds - note 15                    | 23,641,679             | 25,116,076             |
| Deferred tax liabilities - note 24                                  | 59,442,755             | 28,800,682             |
| Retirement benefits obligation - note 25                            | 6,005,493              | 5,258,659              |
|   | <b>297,252,874</b>     | <b>217,834,120</b>     |
|   | <b>536,287,214</b>     | <b>356,607,303</b>     |
| <b>Equity</b>   |                        |                        |
| Capital stock - note 17   | 1,445,549,830          | 1,445,549,830          |
| Remeasurement gain on retirement benefits - note 25                 | 3,641,398              | 3,276,350              |
| Deficit   | ( 375,905,558)         | ( 395,199,637)         |
|   | <b>1,073,285,670</b>   | <b>1,053,626,543</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                 | <b>P 1,609,572,884</b> | <b>P 1,410,233,846</b> |

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

**PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY**  
**Consolidated Statements of Comprehensive Income**

|  | <b>For the Years Ended December 31</b> |                      |                      |
|--|--|----------------------|----------------------|
|  | <b>2017</b>                            | <b>2016</b>          | <b>2015</b>          |
| <b>REAL ESTATE SALES</b> - note 18   | <b>₱ 370,961,767</b>                   | <b>₱ 69,502,349</b>  | <b>₱ 123,804,128</b> |
| <b>COST OF REAL ESTATE SOLD</b> - note 19                                  | <b>( 146,684,748)</b>                  | <b>( 28,592,799)</b> | <b>( 55,349,119)</b> |
| <b>GROSS PROFIT</b>  | <b>224,277,019</b>                     | <b>40,909,550</b>    | <b>68,455,009</b>    |
| <b>DEFERRED GROSS PROFIT</b>   | <b>( 83,488,313)</b>                   | <b>( 18,775,735)</b> | <b>( 25,941,846)</b> |
| <b>REALIZED GROSS PROFIT DURING THE YEAR</b>                               | <b>140,788,706</b>                     | <b>22,133,815</b>    | <b>42,513,163</b>    |
| <b>REALIZED GROSS PROFIT FROM<br/>PREVIOUS YEARS SALES</b>                 | <b>17,410,056</b>                      | <b>47,826,959</b>    | <b>21,381,509</b>    |
| <b>TOTAL REALIZED GROSS PROFIT</b> - note 16                               | <b>158,198,762</b>                     | <b>69,960,774</b>    | <b>63,894,672</b>    |
| <b>OTHER INCOME</b> - note 20  | <b>9,439,359</b>                       | <b>11,779,538</b>    | <b>13,008,295</b>    |
| <b>OPERATING EXPENSES</b> - note 21  | <b>( 105,751,984)</b>                  | <b>( 52,962,149)</b> | <b>( 63,694,487)</b> |
| <b>FINANCE COSTS</b> - note 13   | <b>( 13,400,827)</b>                   | <b>( 11,783,857)</b> | <b>( 10,454,947)</b> |
| <b>INCOME BEFORE TAX</b>   | <b>48,485,310</b>                      | <b>16,994,306</b>    | <b>2,753,533</b>     |
| <b>PROVISION FOR INCOME TAX</b> - note 24                                  |  |                      |                      |
| Current  | <b>1,320,013</b>                       | <b>1,211,682</b>     | <b>1,271,092</b>     |
| Deferred   | <b>27,871,218</b>                      | <b>13,806,943</b>    | <b>370,296</b>       |
|  | <b>29,191,231</b>                      | <b>15,018,625</b>    | <b>1,641,388</b>     |
| <b>NET INCOME</b>  | <b>19,294,079</b>                      | <b>1,975,681</b>     | <b>1,112,145</b>     |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                   |  |                      |                      |
| <b>Not subject to reclassification adjustment:</b>                         |  |                      |                      |
| Remeasurement gain (loss) on retirement benefits (net<br>of tax) - note 25 | <b>365,048</b>                         | <b>696,000</b>       | <b>( 2,128,917)</b>  |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS)<br/>FOR THE YEAR</b>                  | <b>₱ 19,659,127</b>                    | <b>₱ 2,671,681</b>   | <b>(₱ 1,016,772)</b> |
| <b>EARNINGS PER SHARE</b> - note 29  | <b>₱ 0.013</b>                         | <b>₱ 0.001</b>       | <b>₱ 0.001</b>       |

*(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<br>(Note 17) | Remeasurement gain<br>on retirement<br>benefits (net)<br>(Note 25) | Deficit                | Total                  |
|---|----------------------------|--|------------------------|------------------------|
| Balance, January 1, 2015                            | P 1,445,549,830            | P 4,709,267  | (P 398,287,463)        | P 1,051,971,634        |
| Comprehensive income                                |                            |  |                        |                        |
| Net income for the year                             | -                          | -  | 1,112,145              | 1,112,145              |
| Remeasurement loss on retirement benefits - note 25 | -                          | ( 2,128,917)   | -                      | ( 2,128,917)           |
| <b>Total comprehensive loss for the year</b>        | <b>-</b>                   | <b>( 2,128,917)</b>  | <b>1,112,145</b>       | <b>( 1,016,772)</b>    |
| Balance as at December 31, 2015                     | 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                |
| <b>Total comprehensive income for the year</b>      | <b>-</b>                   | <b>696,000</b>   | <b>1,975,681</b>       | <b>2,671,681</b>       |
| <b>Balance as at December 31, 2016</b>              | <b>1,445,549,830</b>       | <b>3,276,350</b>   | <b>( 395,199,637)</b>  | <b>1,053,626,543</b>   |
| Comprehensive income                                |                            |  |                        |                        |
| Net income for the year                             | -                          | -  | 19,294,079             | 19,294,079             |
| Remeasurement gain on retirement benefits - note 25 | -                          | 365,048  | -                      | 365,048                |
| <b>Total comprehensive income for the year</b>      | <b>-</b>                   | <b>365,048</b>   | <b>19,294,079</b>      | <b>19,659,127</b>      |
| <b>Balance as at December 31, 2017</b>              | <b>P 1,445,549,830</b>     | <b>P 3,641,398</b>   | <b>(P 375,905,558)</b> | <b>P 1,073,285,670</b> |

*(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 |                     |                      |
|--|---------------------------------|---------------------|----------------------|
|  | 2017                            | 2016                | 2015                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |                                 |                     |                      |
| Income before tax  | P 48,485,310                    | P 16,994,306        | P 2,753,533          |
| Adjustments for:   |                                 |                     |                      |
| Finance costs - note 13  | 13,400,827                      | 11,783,857          | 10,454,947           |
| Depreciation - note 10   | 3,384,564                       | 3,437,260           | 3,424,329            |
| Loss on cancelled contracts - note 21                                | 32,248,713                      | 1,732,014           | 1,588,220            |
| Retirement benefits expense - note 25                                | 1,268,331                       | 1,462,730           | 1,193,335            |
| Loss from disposal of property and equipment - note 10               | -                               | -                   | 22,000               |
| Interest income - notes 4, 5, 20 and 22                              | ( 8,588,254)                    | ( 8,565,164)        | ( 9,389,778)         |
| Reversal of impairment loss on advances to related parties - note 22 | ( 153,468)                      | ( 2,384,888)        | ( 2,310,405)         |
| Operating income before working capital changes                      | 90,046,023                      | 24,460,115          | 7,736,181            |
| Decrease (increase) in:  |                                 |                     |                      |
| Trade and other receivables  | ( 265,861,880)                  | 34,972,880          | 179,567              |
| Real estate inventories  | 43,253,795                      | ( 5,539,730)        | ( 2,253,784)         |
| Prepayments and other current assets                                 | ( 1,333,853)                    | ( 2,220,191)        | ( 5,075,233)         |
| Increase (decrease) in:  |                                 |                     |                      |
| Accounts payable and other liabilities                               | 12,983,218                      | ( 12,480,456)       | ( 26,876,253)        |
| Customers' deposit   | 5,712,763                       | ( 57,409)           | ( 6,012,633)         |
| Deferred gross profit  | 66,017,368                      | ( 31,268,890)       | 2,430,426            |
| Retention payable and refundable bonds                               | ( 1,474,397)                    | 1,458,292           | ( 965,036)           |
| Cash generated from (used in) operations                             | ( 50,656,963)                   | 9,324,611           | ( 30,836,765)        |
| Interest received - notes 4, 5, 20 and 22                            | 1,620,302                       | 1,570,570           | 2,217,993            |
| Income tax paid  | ( 1,320,013)                    | ( 1,211,682)        | ( 1,271,092)         |
| Net cash provided by (used in) operating activities                  | ( 50,356,674)                   | 9,683,499           | ( 29,889,864)        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |                                 |                     |                      |
| Collection of advances to related parties - note 22                  | 57,986,434                      | 23,919,998          | 32,050,071           |
| Additional advances to related parties - note 22                     | ( 40,422,054)                   | ( 25,379,819)       | ( 16,829,897)        |
| Additions to property and equipment - note 10                        | ( 1,916,194)                    | ( 133,580)          | ( 1,324,259)         |
| Proceeds from sale of property and equipment                         | -                               | -                   | 80,000               |
| Acquisition of investment in AFS financial assets - note 8           | ( 12,500,000)                   | -                   | -                    |
| Additions to other noncurrent assets                                 | ( 18,741)                       | ( 102,492)          | ( 16,770)            |
| Net cash provided by (used in) investing activities                  | 3,129,445                       | ( 1,695,893)        | 13,959,145           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                          |                                 |                     |                      |
| Advances received from related parties - note 22                     | 32,092,370                      | -                   | -                    |
| Settlement of advances from related parties - note 22                | ( 7,350)                        | ( 115)              | ( 5,733,860)         |
| Proceeds from borrowings - note 13                                   | 85,942,157                      | 38,892,932          | 56,500,136           |
| Payment of borrowings - note 13                                      | ( 52,975,125)                   | ( 37,652,635)       | ( 37,652,635)        |
| Finance costs - note 13  | ( 13,400,827)                   | ( 11,783,857)       | ( 10,454,947)        |
| Net cash provided by (used in) financing activities                  | 51,651,225                      | ( 10,543,675)       | 2,658,694            |
| <b>NET INCREASE (DECREASE) IN CASH</b>                               | <b>4,423,996</b>                | <b>( 2,556,069)</b> | <b>( 13,272,025)</b> |
| <b>CASH - note 4</b>   |                                 |                     |                      |
| At beginning of year   | 8,963,990                       | 11,520,059          | 24,792,084           |
| At end of year   | P 13,387,986                    | P 8,963,990         | P 11,520,059         |

*(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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017

### **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 35<sup>th</sup> 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).

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, 2017 including its comparatives for 2016 and 2015 were approved and authorized for issue by its Board of Directors (BOD) on April 18, 2018.

### **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. 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.

### **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 statement 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.



### *Changes in the ownership interests in existing subsidiary*

Changes in the ownership interests in subsidiary that do not result in the loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes to their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent Company.

If the Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any non-controlling interest; (c) recognizes the fair value of consideration received; (d) recognizes the fair value of any investment retained; (e) recognizes any surplus or deficit in the consolidated statement of comprehensive income; and (f) reclassifies the parent's share of components previously recognized in consolidated statement of comprehensive income to the consolidated statement of comprehensive income or retained earnings, as appropriate.

### *Non-controlling interests*

Non-controlling interest represents the portion of the net assets of consolidated subsidiaries not held by the Group, and is presented separately in the consolidated statements of comprehensive income, consolidated statement of changes in equity and within the equity section of the consolidated statement of financial position, separate from the Company's equity. Non-controlling interest share in the losses even if the losses exceed the non-controlling equity interest in the subsidiary.

### **Composition of the Group**

Details of the Parent Company's subsidiaries as at December 31 are as follow:

|   | <b>Percentage of ownership</b> |             |
|---|--------------------------------|-------------|
|   | <b>2017</b>                    | <b>2016</b> |
| <b>Mariano Arroyo Development Corporation</b> | <b>100%</b>                    | <b>100%</b> |

The subsidiary's registered office is at 35<sup>th</sup> 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 amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2017.

*PAS 7 (Amendment), Statement of Cash Flows – Disclosure Initiative.* The amendment requires to provide disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendment resulted in disclosure of a reconciliation of liabilities arising from financing activities, reflecting both changes arising from cash flows and non-cash changes. The transitional provisions of these amendments provide exemption from presenting comparative information upon its initial application. Consequently, the comparative information for the preceding period is not presented on the Group's consolidated financial statements (see Note 33).

*PAS 12 (Amendments), Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* These amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.

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

## **New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2017**

Standards issued but not yet effective up to the date of the Group's 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 2014-2016 Cycle*

The Annual Improvements to PFRS 2014-2016 Cycle sets out the amendments to PFRS 1, PFRS 12 and PAS 28. The amendments to PFRS 1 and PAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendments to PAS 28 shall be applied retrospectively with earlier application permitted.

The annual improvements addressed the following issues:

*PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards – 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 (Amendments), Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value.* The amendments 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 application of the above improvements will have no significant 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 are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The amendments will not have a 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 are effective for annual periods beginning on or after January 1, 2018, 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 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 will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

*PFRS 9, Financial Instruments (2014).* The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement 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 standard is to be effective no earlier than the annual periods beginning January 1, 2018, with earlier application permitted.

The management does not anticipate that the application of PFRS 9 will have a significant impact on the Group's consolidated financial statements as the Group's AFS financial assets will continue to be measured at fair value with fair value recognize in the other comprehensive income, and debt instruments will continue to be measured at amortized cost.

*PFRS 15, Revenue from Contracts with Customers.* This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. 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. An entity recognizes revenue 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. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The new standard is not expected to have an impact on the Group's consolidated financial statements.

*PFRS 15 (Amendments), Revenue from Contracts with Customers – Clarifications to PFRS 15 Revenue from Contracts with Customers.* This addresses clarifying amendments to PFRS 15 and introduced a transitional relief for entities applying the standard for the first time. The focus of these amendments is on clarifying the application of PFRS 15 when (a) identifying performance obligations by clarifying how to apply the concept of 'distinct', (b) determining whether an entity is acting as principal or an agent in a transaction by clarifying how to apply the control principle, and (c) assessing whether a license transfers to a customer over time or at a point in time by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights. The amendments also add two practical expedients to the transition requirements of PFRS 15 for completed contracts under the full retrospective transition approach and contract modifications at transition. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The new standard is not expected to have an impact 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. This interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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

*Philippine Interpretations Committee (PIC) Question & Answer (Q&A) No. 2016-04, Application of PFRS 15, "Revenue from Contracts with Customers," on Sale of Residential Properties under Pre-Completion Contracts.* This provides implementation guidance, in relation to the mandatory adoption of the new revenue accounting standard in 2018, specifically on accounting for revenue from the sale of a residential property unit under pre-completion stage by a real estate developer that enters into a Contract to Sell (CTS) with a buyer – whether the sale meet the criteria for revenue recognition over time. The PIC concluded that the sales of residential properties under pre-completion stage meet the third criterion under paragraph 35(c) of PFRS 15; and therefore, revenue therefrom shall be recognized over time.

The interpretation is not expected to have an impact on the Group's consolidated financial statements.

*PFRS 9 (Amendment), Financial Instruments – Prepayment Features with Negative Compensation.* This addresses the concerns about how PFRS 9 classifies particular repayable financial assets. The amendment 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 amendment will not have a significant impact on the disclosures and amounts recognized 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 standard will have an impact on the recognition of lease expenses, noncurrent assets and liabilities.

## **Financial Instruments**

### *Initial Recognition, Measurement and Classification of Financial Instruments*

The Group recognizes financial assets and financial liabilities in the 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 instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments includes transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

All financial assets and liabilities are classified as loans and receivables, AFS financial assets and other financial liabilities, respectively. The Group did not hold any other financial instruments as at December 31, 2017 and 2016.

## **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 by 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 economic best 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.

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 consolidated 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 consolidated 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.

### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the consolidated statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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, 2017 and 2016, included under loans and receivables are the Group’s cash, trade and other receivables, refundable deposits and advances to related parties (see Notes 4, 5, 11 and 22).

### *Cash*

The cash as included in the consolidated statements of cash flows and in the consolidated statements of financial position includes cash on hand and deposits held at call with banks.

*Trade and other receivables*

Trade and other receivables consist of amounts due from customers, advances to employees and homeowners and receivable from contractors.

*Other noncurrent assets*

Other noncurrent assets consist mainly of refundable deposits.

*Advances to related parties*

Advances to related parties pertains to various cash advances made to related parties.



## **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).

## **Other Financial Liabilities**

Other financial liabilities are initially measured at fair value, less directly attributable transaction cost.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statements of comprehensive income when the liabilities are derecognized as well as through the amortization process. Other financial liabilities are classified as current liabilities if payment is due within one (1) year or less (or in the normal operating cycle of the business if longer) while other payables are classified as current liabilities if payment is due within one (1) year or less. If not, they are presented as noncurrent liabilities.

As at December 31, 2017 and 2016, included in other financial liabilities are the Group's accounts payable and other liabilities, borrowings, customers' deposits, retention payable and refundable bonds, and advances from related parties (see Notes 12, 13, 14, 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.

#### *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.

#### *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 pertains to various cash advances from 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 prepayment 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 consolidated statements of comprehensive income in the period incurred.

### **Amortized Cost of Financial Instruments**

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any

premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the 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’s consolidated statements of comprehensive income.

### **Impairment of Financial Assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred

“loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

#### *Loans and receivables*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statements of comprehensive income.

If in a subsequent date, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statements of comprehensive. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group.

Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the consolidated statements of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of comprehensive income, the impairment loss is reversed through the consolidated statements of comprehensive income.

#### *AFS financial assets*

For AFS financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income is removed from other comprehensive income and recognized in the consolidated statements of comprehensive income.

Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as AFS financial assets, increase in fair value after impairment is reversed in consolidated statements of comprehensive income.

#### **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. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized. 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.

### *Input Tax*

Input tax is the indirect tax paid by the Group on the local purchase of goods or services from a VAT-registered person. Input tax is deducted from the output tax in arriving at the VAT due and payable. When the output tax exceeds the input tax, the difference is recognized as a current liability in the statements of financial position. When the input tax exceeds the output tax, the excess is carried over the next reporting period and is recognized as an asset presented as Input tax in the statements of financial position.

The Group's input tax is stated at cost less provision for impairment, if any. Allowance for unrecoverable input tax, if any, is 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:

|                                   | <u>In Years</u> |
|-----------------------------------|-----------------|
| 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* include 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 comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates 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' as shown in 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.

### **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.

### **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 Company 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 Company; (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 Company or to the parent of the Company; (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.

### **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**

Post year-end events that provide additional information about the Group's position at the reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the 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.

##### *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, 2017 and 2016.

##### *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 Segment*

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).

### *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, 2017 and 2016.

### **Significant Accounting Estimates and Assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

### *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 ₱158,198,762, ₱69,960,774 and ₱63,894,672, for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 16).

### *Allowance for Doubtful Accounts and Impairment Losses*

Recoverability of specific trade and other receivables, and advances to related parties is evaluated based on the best available facts and circumstances, the length of the Group's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are reevaluated and adjusted as additional information received affects the amount estimated to be uncollectible.

Allowance for doubtful accounts and impairment losses on trade and other receivables, and advances to related parties as at December 31, 2017 and 2016 amounted to ₱41,575,559 and ₱41,729,027, respectively (see Notes 5 and 22).

The Group's trade and other receivables, and advances to related parties, net of allowance, as at December 31, 2017 and 2016 amounted to ₱840,928,059 and ₱617,757,852, 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, 2017 and 2016 amounted to ₱42,584,820 and ₱44,053,190, respectively (see Note 10).

#### *Deferred Tax Assets*

The Group reviews the carrying amounts of deferred taxes 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, 2017 and 2016 amounted to ₱10,704,027 and ₱8,089,622, 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, 2017 and 2016 amounted to ₱6,005,493 and ₱5,258,659, respectively (see Note 25).

#### **4. CASH**

Cash as at December 31 consist of:

|               | <b>2017</b>         | <b>2016</b> |
|---------------|---------------------|-------------|
| Cash on hand  | <b>₱ 88,446</b>     | ₱ 61,446    |
| Cash in banks | <b>13,299,540</b>   | 8,902,544   |
|               | <b>₱ 13,387,986</b> | ₱ 8,963,990 |

Cash in banks generally earn interest at annual rates based on daily bank deposit rates ranging from 0.125% to 0.25% per annum in 2017 and 2016.

Interest income earned from cash in bank amounted to ₱18,712, ₱8,271, and ₱22,338 in 2017, 2016 and 2015, 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 as at December 31, 2017 and 2016.

## 5. **TRADE AND OTHER RECEIVABLES** (net)

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

|  | 2017                 | 2016          |
|--|----------------------|---------------|
| <b>Current</b>                         |                      |               |
| Installment contract receivables       | ₱ 409,758,176        | ₱ 114,778,184 |
| Advances to homeowners                 | 13,269,496           | 14,161,735    |
| Advances to employees                  | 9,799,025            | 6,920,514     |
| Other receivables                      | 3,941,262            | 2,383,388     |
|  | <b>436,767,959</b>   | 138,243,821   |
| Allowance for doubtful accounts        | ( 578,494)           | ( 578,494)    |
|  | <b>₱ 436,189,465</b> | ₱ 137,665,327 |
| <b>Noncurrent</b>                      |                      |               |
| Installment contract receivables from: |                      |               |
| External customers                     | ₱ 52,051,936         | ₱ 117,631,636 |
| Related parties – note 22              | 31,892,929           | 31,284,329    |
| Receivable from contractors            | 4,812,299            | 4,752,170     |
|  | <b>88,757,164</b>    | 153,668,135   |
|  | <b>₱ 524,946,629</b> | ₱ 291,333,462 |

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 2017 and 2016. Interest income earned amounted to ₱1,601,590, ₱1,562,299 and ₱2,195,655 in 2017, 2016 and 2015, 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, 2017 and 2016 amounted to ₱50,942,157 and ₱23,531,797, 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, 2017 and 2016 are held as collateral for its liabilities.

## 6. REAL ESTATE INVENTORIES

Real estate inventories as at December 31 consist of:

|                            | <b>2017</b>          | 2016          |
|----------------------------|----------------------|---------------|
| At cost:                   |                      |               |
| Raw land inventory         | <b>₱ 499,432,492</b> | ₱ 445,463,130 |
| Projects under development | <b>65,654,308</b>    | 164,680,645   |
| House and lot              | <b>88,725,280</b>    | 86,922,100    |
|                            | <b>₱ 653,812,080</b> | ₱ 697,065,875 |

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 Parent Company'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
- Metro Tech Industrial Park (formerly Plastic City Industrial Park) in Valenzuela

The Parent Company has entered into joint venture agreement with related parties whereby the related parties contribute real estate properties to be developed by the Parent Company. 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 consist 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 (see Note 28).

*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.

The cost of inventories recognized as expense and included in 'Cost of Real Estate Sold' in the consolidated statements of comprehensive income amounted to ₱146,684,748, ₱28,592,799 and ₱55,349,119 for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 19).

Real estate inventories with a total cost of ₱13.46 million as at December 31, 2017 and 2016, 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, 2017 and 2016 are held as collateral for its liabilities.

**7. PREPAYMENTS AND OTHER CURRENT ASSETS**

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

|                              | 2017                | 2016                |
|------------------------------|---------------------|---------------------|
| Creditable withholding taxes | ₱ 20,291,043        | ₱ 18,861,862        |
| Input taxes                  | 6,845,673           | 6,995,397           |
| Prepaid expenses             | 798,621             | 744,224             |
|                              | <b>₱ 27,935,337</b> | <b>₱ 26,601,483</b> |

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

**8. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

During the year, 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 as AFS financial assets as the Group does not participate in the financial and operating policy of the investee which manifests control or significant influence. These investments are stated at cost less impairment loss since there is no quoted price in an active market.

The Group's AFS financial assets as at December 31, 2017 are not held as collateral for its financial liabilities.

## 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, 2017 and 2016.

Investment 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, 2017, 2016 and 2015.

The Group's investment property as at December 31, 2017 and 2016 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, 2017 and 2016.

No valuation of independent valuer 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. As at December 31, 2017, the fair value of land amounted to ₱109,200,000 (₱120/ sq.m).

There is no existence of restrictions on the realizability of the investment property as at December 31, 2017 and 2016.

The Group has not entered into any contractual commitments to purchase, construct or develop investment property as at December 31, 2017 and 2016.

## 10. PROPERTY AND EQUIPMENT (net)

Reconciliation of the Group's property and equipment (net) as at December 31, 2017 is as follows:

|                                 | <b>Building and<br/>improvements</b> | <b>Transportatio<br/>n equipment</b> | <b>Machinery,<br/>furniture<br/>and fixtures</b> | <b>Total</b>       |
|---------------------------------|--------------------------------------|--------------------------------------|--|--------------------|
| <b>Cost</b>                     |                                      |                                      |  |                    |
| 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                  | <b>78,693,042</b>                    | <b>6,302,022</b>                     | <b>41,075,200</b>                                | <b>126,070,264</b> |
| <b>Accumulated depreciation</b> |                                      |                                      |  |                    |
| At beginning of year            | ₱ 35,916,234                         | ₱ 4,366,469                          | ₱  | ₱ 80,100,880       |

|                              |                     |                    |                   |                     |
|------------------------------|---------------------|--------------------|-------------------|---------------------|
|                              |                     |                    | <b>39,818,177</b> |                     |
| Depreciation – note 21       | <b>2,385,125</b>    | <b>430,602</b>     | <b>568,837</b>    | <b>3,384,564</b>    |
| At end of year               | <b>38,301,359</b>   | <b>4,797,071</b>   | <b>40,387,014</b> | <b>83,485,444</b>   |
| <b>Carrying amount as at</b> |                     |                    | <b>₱</b>          |                     |
| <b>December 31, 2017</b>     | <b>₱ 40,391,683</b> | <b>₱ 1,504,951</b> | <b>688,186</b>    | <b>₱ 42,584,820</b> |

Reconciliation of the Group's property and equipment (net) as at December 31, 2016 is as follows:

|                                     | Building and<br>improvements | Transportation<br>equipment | Machinery,<br>furniture and<br>fixtures | Total               |
|-------------------------------------|------------------------------|-----------------------------|---|---------------------|
| <b>Cost</b>                         |                              |                             |   |                     |
| At beginning of year                |                              |                             | ₱                                       |                     |
|                                     | ₱ 78,693,042                 | ₱ 5,085,686                 | 40,241,762                              | ₱ 124,020,490       |
| Additions                           | –                            | –                           | 133,580                                 | 133,580             |
| At end of year                      | 78,693,042                   | 5,085,686                   | 40,375,342                              | 124,154,070         |
| <b>Accumulated<br/>depreciation</b> |                              |                             |   |                     |
| At beginning of year                |                              |                             | ₱                                       |                     |
|                                     | ₱ 33,531,109                 | ₱ 3,997,321                 | 39,135,190                              | ₱ 76,663,620        |
| Depreciation – note 21              | 2,385,125                    | 369,148                     | 682,987                                 | 3,437,260           |
| At end of year                      | 35,916,234                   | 4,366,469                   | 39,818,177                              | 80,100,880          |
| <b>Carrying amount as at</b>        |                              |                             | ₱                                       |                     |
| <b>December 31, 2016</b>            | <b>₱ 42,776,808</b>          | <b>₱ 719,217</b>            | <b>557,165</b>                          | <b>₱ 44,053,190</b> |

Fully depreciated property and equipment still in use as at December 31, 2017 and 2016 amounted to ₱43,776,615 and ₱76,318,801, respectively.

The Group entered into a chattel mortgage agreement with Asia United Bank for the purchase of transportation equipment payable in three (3) years until 2020. Transportation equipment with carrying amount of ₱1,176,054 as at December 31, 2017, was used as collateral to secure payment of borrowings (see Note 13). Aside from the foregoing, the Group's property and equipment as at December 31, 2017 and 2016 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, 2017 and 2016.

## **11. OTHER NONCURRENT ASSETS**

Other noncurrent assets as at December 31 consist of:

|                     | <b>2017</b>        | 2016        |
|---------------------|--------------------|-------------|
| Refundable deposits | <b>₱ 6,405,096</b> | ₱ 6,386,355 |
| Other assets        | <b>243,463</b>     | 243,463     |

**₱ 6,648,559**      **₱ 6,629,818**

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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:

|   | <b>2017</b>         | 2016         |
|---|---------------------|--------------|
| Deferred output VAT and other taxes payable | <b>₱ 24,430,992</b> | ₱ 14,796,818 |
| Accounts payable                            | <b>19,666,916</b>   | 21,684,141   |
| Accrued expenses                            | <b>5,785,032</b>    | 5,421,147    |
| Other payables                              | <b>15,941,054</b>   | 10,938,670   |
|   | <b>₱ 65,823,994</b> | ₱ 52,840,776 |

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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.

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

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

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

## **13. BORROWINGS**

Borrowings as at December 31 consist of:

|            | <b>2017</b>          | 2016         |
|------------|----------------------|--------------|
| Current    | <b>₱ 58,980,789</b>  | ₱ 43,432,981 |
| Noncurrent | <b>52,321,666</b>    | 34,902,442   |
|            | <b>₱ 111,302,455</b> | ₱ 78,335,423 |

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The details of borrowings of the Group are as follows:

Outstanding balance

| Bank/ Lender                               | 2017                 | 2016                | Loan type and significant terms  |
|--|----------------------|---------------------|--|
| Luzon Development Bank                     | ₱ 67,896,171         | ₱ 50,550,349        | Notes payable amounting to ₱35 million in 2012 and additional ₱35 million during 2015, 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 (CV) Financial Corporation | 42,472,266           | 18,272,996          | Borrowings from CV Financial Corporation represents selling of installment accounts receivables by virtue of various contracts to sell for a consideration of ₱50,942,157 and ₱23,531,797 as at December 31, 2017 and 2016, respectively (see Note 5).   |
| Asia United Bank                           | 934,018              | —                   | Note payable amounting to ₱1,072,000 is secured by chattel mortgage with a total cost of ₱1,340,000 and carrying value amounting to ₱1,176,054 as of December 31, 2017. The note carries interest rate of 10.25% and payable in 36 months (see Note 10).   |
| Home Development Mutual Fund               | —                    | 9,512,078           | 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.  |
|  | <b>₱ 111,302,455</b> | <b>₱ 78,335,423</b> |  |

Finance costs charged in the consolidated statements of comprehensive income amounted to ₱13,400,827, ₱11,783,857 and ₱10,454,947 in 2017, 2016 and 2015 respectively.

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

Table below shows movement of borrowings during the year:

|  | 2017 | 2016 |
|--|------|------|
|--|------|------|



|                      |                      |               |
|----------------------|----------------------|---------------|
| At beginning of year | <b>₱ 78,335,423</b>  | ₱ 77,095,126  |
| Availments           | <b>85,942,157</b>    | 38,892,932    |
| Payments             | <b>( 52,975,125)</b> | ( 37,652,635) |
| At end of year       | <b>₱ 111,302,455</b> | ₱ 78,335,423  |

#### 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 is reached by the buyer, sale is recognized and these deposits and down payments will be recognized as revenue and will be applied against the installment contract receivable balance.

As at December 31, 2017 and 2016, outstanding balance of the customers' deposits amounted to ₱7,309,856 and ₱1,597,093, respectively.

#### 15. **RETENTION PAYABLE AND REFUNDABLE BONDS**

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

|                   | <b>2017</b>         | 2016         |
|-------------------|---------------------|--------------|
| Retention payable | <b>₱ 14,289,648</b> | ₱ 15,823,128 |
| Refundable bonds  | <b>9,352,031</b>    | 9,292,948    |
|                   | <b>₱ 23,641,679</b> | ₱ 25,116,076 |

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 price.

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, 2017 and 2016, deferred gross profit amounted to ₱106,919,701 and ₱40,902,333, respectively. Realized gross profit for current and prior year sales amounted to ₱158,198,762 and ₱69,960,774 in 2017 and 2016, respectively.

## 17. CAPITAL STOCK

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

| Capital stock         | Number of share      | Par value per share | Total                  |
|-----------------------|----------------------|---------------------|------------------------|
| Authorized            | <b>5,000,000,000</b> | <b>₱ 1</b>          | <b>₱ 5,000,000,000</b> |
| Issued and fully-paid | <b>1,445,549,830</b> | <b>₱ 1</b>          | <b>₱ 1,445,549,830</b> |

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 1,386,647,820 shares and 759,168,360 shares or a public ownership of 95.93% and 52.60% as at December 31, 2017 and 2016, respectively.

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

|                          | Market value per share |
|--------------------------|------------------------|
| <b>December 31, 2017</b> | <b>₱ 0.355</b>         |
| December 31, 2016        | 0.280                  |
| December 31, 2015        | 0.285                  |

## 18. REAL ESTATE SALES

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

|               | 2017                 | 2016         | 2015          |
|---------------|----------------------|--------------|---------------|
| Lot           | <b>₱ 127,560,589</b> | ₱ 46,940,567 | ₱ 77,827,344  |
| House and lot | <b>243,401,178</b>   | 22,561,782   | 45,976,784    |
|               | <b>₱ 370,961,767</b> | ₱ 69,502,349 | ₱ 123,804,128 |

## 19. COST OF REAL ESTATE SOLD

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

|               | 2017                 | 2016         | 2015         |
|---------------|----------------------|--------------|--------------|
| Lot           | <b>₱ 37,837,238</b>  | ₱ 20,474,774 | ₱ 35,256,710 |
| House and lot | <b>108,847,510</b>   | 8,118,025    | 20,092,409   |
|               | <b>₱ 146,684,748</b> | ₱ 28,592,799 | ₱ 55,349,119 |

## 20. OTHER INCOME

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

|   | 2017               | 2016         | 2015         |
|---|--------------------|--------------|--------------|
| Interest income from:   |                    |              |              |
| Advances to affiliates – note 22  | <b>₱ 6,967,952</b> | ₱ 6,994,594  | ₱ 7,171,785  |
| Installment contracts receivables – note 5                              | <b>1,601,590</b>   | 1,562,299    | 2,195,655    |
| Cash in bank – note 4   | <b>18,712</b>      | 8,271        | 22,338       |
| Reversal of impairment loss on advances<br>to related parties – note 22 | –                  | 2,384,888    | 2,310,405    |
| Income from lawsuit   | –                  | –            | 974,382      |
| Miscellaneous income  | <b>851,105</b>     | 829,486      | 333,730      |
|   | <b>₱ 9,439,359</b> | ₱ 11,779,538 | ₱ 13,008,295 |

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

On December 1, 2014, the Group and Kummassie Plantation Co., Inc. ('Kummassie') entered into Compromise Agreement for the determination of the payment for just compensation involving an amount of ₱26.3 million. The Group is a party to a civil case filed by Kummassie against the Landbank of the Philippines for the determination of just compensation for the conflicting claims on the value of agricultural assets on a leased property, filed before the Regional Trial Court (RTC) of Davao City. A decision by the RTC of Davao was reached on December 15, 2014 through a Compromise Agreement, in which the Group will receive 60% of

the principal amount and interest. For the years ended December 31, 2017, 2016 and 2015, the Group received Nil, Nil and ₱974,382, respectively.

## 21. OPERATING EXPENSES

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

|  | 2017                | 2016        | 2015        |
|--|---------------------|-------------|-------------|
| Loss on cancelled contracts                          | <b>₱32,248,713</b>  | ₱1,732,014  | ₱1,588,220  |
| Salaries and wages                                   | <b>19,751,395</b>   | 16,711,935  | 16,518,712  |
| Travel and transportation                            | <b>10,787,176</b>   | 5,329,333   | 5,499,606   |
| Commissions  | <b>7,981,567</b>    | 4,944,304   | 6,001,919   |
| Advertising  | <b>5,028,241</b>    | 1,798,275   | 2,664,526   |
| Depreciation - note 10                               | <b>3,384,564</b>    | 3,437,260   | 3,424,329   |
| Taxes and licenses                                   | <b>3,221,498</b>    | 3,828,559   | 7,483,561   |
| Communication, light and water                       | <b>2,757,379</b>    | 2,040,978   | 2,286,549   |
| Employee benefits                                    | <b>2,700,470</b>    | 2,013,907   | 1,808,632   |
| Professional and legal fees                          | <b>2,370,538</b>    | 2,413,032   | 2,678,168   |
| Repairs and maintenance                              | <b>1,924,984</b>    | 486,513     | 604,673     |
| Sports and recreation                                | <b>1,858,918</b>    | 159,879     | 145,363     |
| Supplies   | <b>1,625,888</b>    | 826,804     | 1,081,097   |
| Representation and entertainment                     | <b>1,443,552</b>    | 348,561     | 336,852     |
| Retirement benefits – note 25                        | <b>1,268,331</b>    | 1,462,730   | 1,193,335   |
| Rental – note 27                                     | <b>717,703</b>      | 681,167     | 601,776     |
| Dues and subscription                                | <b>698,747</b>      | 669,379     | 691,498     |
| Security services                                    | <b>426,067</b>      | 455,382     | 955,469     |
| Janitorial services                                  | <b>224,943</b>      | 254,366     | 243,167     |
| Director fees  | <b>220,000</b>      | 100,000     | 200,000     |
| Penalty fee, interests and surcharges                | <b>212,034</b>      | 57,932      | 3,363,748   |
| Insurance  | <b>80,278</b>       | 235,187     | 108,199     |
| Meetings, trainings and seminars                     | <b>40,609</b>       | 88,581      | 1,038,434   |
| Loss on disposal of property and equipment – note 10 | –                   | –           | 22,000      |
| Miscellaneous  | <b>4,778,389</b>    | 2,886,071   | 3,154,654   |
|  | <b>₱105,751,984</b> | ₱52,962,149 | ₱63,694,487 |

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, 2017 and 2016 are as follows:

### December 31, 2017

|   | At beginning of year | Additional advances/<br>Impairment | Accrual of interest | Collection/<br>application/<br>reversal of<br>impairment | At end of year |
|---|----------------------|------------------------------------|---------------------|--|----------------|
| <b><u>Common key management</u></b>       |                      |                                    |                     |  |                |
| 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<br>Construction (c) | 3,979,197            | 56,083                             | 361,128             | –  | 4,396,408      |
| Bataan Polyethylene Corp.                 | 183,232              | –                                  | –                   | ( 183,232)   | –              |
| The Wellex Group, Inc. (e)                | 22,665,360           | 34,802,370                         | 335,472             | ( 57,803,202)  | –              |
| <b><u>Stockholders</u></b>                |                      |                                    |                     |  |                |
| 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    |
| <b><u>Allowance for impairment</u></b>    |                      |                                    |                     |  |                |
| Plastic City Corp.                        | 22,466,500           | –                                  | –                   | –  | 22,466,500     |
| Forum Holdings Corp.                      | 9,714,260            | –                                  | –                   | –  | 9,714,260      |
| International Polymer Corp.               | 96,319               | –                                  | –                   | –  | 96,319         |
| Kennex Container Corp.                    | 2,789,138            | –                                  | –                   | –  | 2,789,138      |
| Orient Pacific Corp.                      | 3,161,455            | –                                  | –                   | –  | 3,161,455      |
| Heritage Pacific Corp.                    | 2,769,393            | –                                  | –                   | –  | 2,769,393      |
| Bataan Polyethylene Corp.                 | 153,468              | –                                  | –                   | ( 153,468)   | –              |
|   | 41,150,533           | –                                  | –                   | ( 153,468)   | 40,997,065     |
|   | ₱ 326,424,390        | ₱ 40,422,054                       | ₱ 6,967,952         | (₱ 57,832,966)   | ₱ 315,981,430  |

### December 31, 2016

|   | At beginning of year | Additional advances/<br>Impairment | Accrual of interest | Collection/<br>application/<br>reversal of<br>impairment | At end of year |
|---|----------------------|------------------------------------|---------------------|--|----------------|
| <b><u>Common key management</u></b>             |                      |                                    |                     |  |                |
| Plastic City Corp. (a)                          | ₱ 176,991,937        | ₱ –                                | ₱ 3,470,430         | ₱ –  | ₱ 180,462,367  |
| Forum Holdings Corp. (b)                        | 72,749,729           | –                                  | 1,426,465           | –  | 74,176,194     |
| Kennex Container Corp. (b)                      | 32,704,720           | –                                  | 553,916             | –  | 33,258,636     |
| Orient Pacific Corp. (b)                        | 31,819,404           | –                                  | 445,640             | –  | 32,265,044     |
| Heritage Pacific Corp. (b)                      | 19,021,618           | –                                  | 372,973             | –  | 19,394,591     |
| Metro Alliance Holdings and<br>Equity Corp. (d) | 18,288,144           | –                                  | 358,591             | ( 18,646,735)  | –              |
| Noble Arch Realty and<br>Construction (c)       | 3,517,176            | 100,893                            | 361,128             | –  | 3,979,197      |
| Bataan Polyethylene Corp.                       | 179,709              | –                                  | 3,523               | –  | 183,232        |
| The Wellex Group, Inc. (e)                      | 2,659,697            | 25,278,926                         | –                   | ( 5,273,263)   | 22,665,360     |
| <b><u>Stockholders</u></b>                      |                      |                                    |                     |  |                |
| International Polymer Corp. (b)(f)              | 1,188,374            | –                                  | 1,928               | –  | 1,190,302      |
|   | 359,120,508          | 25,379,819                         | 6,994,594           | ( 23,919,998)  | 367,574,923    |
| <b><u>Allowance for impairment</u></b>          |                      |                                    |                     |  |                |
| Plastic City Corp.                              | 22,466,500           | –                                  | –                   | –  | 22,466,500     |
| Forum Holdings Corp.                            | 9,714,260            | –                                  | –                   | –  | 9,714,260      |
| International Polymer Corp.                     | 96,319               | –                                  | –                   | –  | 96,319         |
| Kennex Container Corp.                          | 2,789,138            | –                                  | –                   | –  | 2,789,138      |

|  |                      |                     |                    |                       |                      |
|--|----------------------|---------------------|--------------------|-----------------------|----------------------|
| Orient Pacific Corp.                     | 3,161,455            | –                   | –                  | –                     | 3,161,455            |
| Heritage Pacific Corp.                   | 2,769,393            | –                   | –                  | –                     | 2,769,393            |
| Metro Alliance Holdings and Equity Corp. | 2,384,888            | –                   | –                  | ( 2,384,888)          | –                    |
| Bataan Polyethylene Corp.                | 153,468              | –                   | –                  | –                     | 153,468              |
|  | 43,535,421           | –                   | –                  | ( 2,384,888)          | 41,150,533           |
|  | <b>₱ 315,585,087</b> | <b>₱ 25,379,819</b> | <b>₱ 6,994,594</b> | <b>(₱ 21,535,110)</b> | <b>₱ 326,424,390</b> |

Details of the Group's advances from related parties as at December 31, 2017 and 2016 are as follows:

**December 31, 2017**

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

**December 31, 2016**

|                                     | At beginning of year | Additional advances from related parties | Settlement/ Reversal | At end of year       |
|-------------------------------------|----------------------|--|----------------------|----------------------|
| <b><u>Common key management</u></b> |                      |  |                      |                      |
| Concept Moulding Corp.              | <b>₱ 3,830,646</b>   | <b>₱ –</b>                               | <b>₱ –</b>           | <b>₱ 3,830,646</b>   |
| Pacific Rehouse Corp.               | <b>27,704,743</b>    | <b>–</b>                                 | <b>( 115)</b>        | <b>27,704,628</b>    |
| Waterfront Cebu City Hotel          | <b>92,054,457</b>    | <b>–</b>                                 | <b>–</b>             | <b>92,054,457</b>    |
| Manila Pavilion                     | <b>166,530</b>       | <b>–</b>                                 | <b>–</b>             | <b>166,530</b>       |
|                                     | <b>₱123,756,376</b>  | <b>₱ –</b>                               | <b>(₱ 115)</b>       | <b>₱ 123,756,261</b> |

*a) Plastic City Corporation (PCC)*

Advances to PCC represent interest bearing cash advances which bears an interest of 13% 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. As at December 31, 2017 and 2016, the outstanding advances to PCC has not been settled pending transfer of property from PNB to PCC.

*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 29, 2016, the PNs were renewed for another three (3) years and will mature on 2020.

*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.

*d) Metro Alliance Holdings and Equity Corporation (MAHEC)*

The Group provides unsecured advances to Metro Alliance Holdings and Equity Corporation with principal amount of ₱2,152,577 which bear interest at the rate of two percent (2%) per annum. The Group and MAHEC have not yet agreed on the mode of settlement of advances. The PN was renewed in 2014 with three (3) year terms which matured during the year and earn interest of two percent (2%) per annum. On December 29, 2016, the Group issued a Tripartite Agreement wherein TWGI will assume the outstanding balance of MAHEC.

*e) 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):

|                                   | 2017                | 2016                |
|-----------------------------------|---------------------|---------------------|
| The Wellex Group, Inc.            | ₱ 27,552,410        | ₱ 27,552,410        |
| International Polymer Corporation | 4,340,519           | 3,731,919           |
|                                   | <b>₱ 31,892,929</b> | <b>₱ 31,284,329</b> |

*f) 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 Parent Company. The total remuneration of these personnel is as follows:

|                              | 2017              | 2016               | 2015               |
|------------------------------|-------------------|--------------------|--------------------|
| Short-term employee benefits | ₱ 4,779,020       | ₱ 4,799,460        | ₱ 4,482,500        |
| Post-employment benefits     | 396,577           | 436,315            | 373,542            |
| Share-based payments         | -                 | -                  | -                  |
| Other long-term benefits     | -                 | -                  | -                  |
|                              | <b>₱ ,175,597</b> | <b>₱ 5,235,775</b> | <b>₱ 4,856,042</b> |

*g) Transaction with the retirement fund*

The Group has no transactions with its retirement fund for the years ended December 31, 2017 and 2016.

### 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, 2017 and 2016, the transfer of property and the project remains pending due to prerequisites still needed to be settled on the transfer of property to ALC.

### 24. INCOME TAX

#### *Reconciliation of Income Tax Expense*

The reconciliation of pretax income 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:

|   | 2017                | 2016                | 2015               |
|---|---------------------|---------------------|--------------------|
| Income before income tax                  | ₱ 48,485,310        | ₱ 16,994,306        | ₱ 2,753,533        |
| Income tax computed at 30%                | 14,545,593          | 5,098,292           | 826,060            |
| Tax effect of:                            |                     |                     |                    |
| Nondeductible expenses                    | 13,564,419          | 564,432             | 1,506,966          |
| Expired MCIT                              | 1,080,975           | 724,476             | -                  |
| Expired NOLCO                             | 5,316               | 9,348,348           | 5,420              |
| Nondeductible interest expense            | -                   | 1,024               | 2,765              |
| Reversal of allowance for impairment loss | -                   | ( 715,466)          | ( 693,122)         |
| Interest income subjected to final tax    | ( 5,614)            | ( 2,481)            | ( 6,701)           |
| Change in unrecognized deferred tax asset | 542                 | -                   | -                  |
|   | <b>₱ 29,191,231</b> | <b>₱ 15,018,625</b> | <b>₱ 1,641,388</b> |

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

|                            | 2017        | 2016        |
|----------------------------|-------------|-------------|
| <b>Deferred tax assets</b> |             |             |
| MCIT                       | ₱ 3,802,787 | ₱ 3,563,749 |
| NOLCO                      | 3,555,690   | 1,560,280   |



|                                 |                     |                    |
|---------------------------------|---------------------|--------------------|
| Retirement benefit expense      | 3,362,247           | 2,981,748          |
|                                 | <b>₱ 10,720,724</b> | <b>₱ 8,105,777</b> |
| Unrecognized deferred tax asset | ( 16,697)           | ( 16,155)          |
|                                 | <b>₱ 10,704,027</b> | <b>₱ 8,089,622</b> |

#### **Deferred tax liabilities**

|  |                     |                     |
|--|---------------------|---------------------|
| Excess of financial realized gross profit over taxable realized gross profit | ₱ 57,882,155        | ₱ 27,396,532        |
| Remeasurement gain on retirement benefits                                    | 1,560,600           | 1,404,150           |
|  | <b>₱ 59,442,755</b> | <b>₱ 28,800,682</b> |

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

As at December 31, 2017, the Group's NOLCO that can be claimed as deduction from future taxable income follows:

| Year of Incurrence | Year of Expiry | 2016 Balance       | Additions          | Expired/Applied   | 2017 Balance        |
|--------------------|----------------|--------------------|--------------------|-------------------|---------------------|
| 2014               | 2017           | ₱ 17,722           | ₱ –                | (₱ 17,722)        | ₱ –                 |
| 2015               | 2018           | 4,368,936          | –                  | –                 | 4,368,936           |
| 2016               | 2019           | 814,276            | –                  | –                 | 814,276             |
| 2017               | 2020           | –                  | 6,669,088          | –                 | 6,669,088           |
|                    |                | <b>₱ 5,200,934</b> | <b>₱ 6,669,088</b> | <b>(₱ 17,722)</b> | <b>₱ 11,852,300</b> |

As at December 31, 2017, the Group's MCIT that can be claimed as deduction from future income tax payable follows:

| Year of Incurrence | Year of Expiry | 2016 Balance       | Additions          | Expired/Applied      | 2017 Balance       |
|--------------------|----------------|--------------------|--------------------|----------------------|--------------------|
| 2014               | 2017           | ₱ 1,080,975        | ₱ –                | (₱ 1,080,975)        | ₱ –                |
| 2015               | 2018           | 1,271,092          | –                  | –                    | 1,271,092          |
| 2016               | 2019           | 1,211,682          | –                  | –                    | 1,211,682          |
| 2017               | 2020           | –                  | 1,320,013          | –                    | 1,320,013          |
|                    |                | <b>₱ 3,563,749</b> | <b>₱ 1,320,013</b> | <b>(₱ 1,080,975)</b> | <b>₱ 3,802,787</b> |

#### *Relevant Tax Update*

Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect on January 1, 2018, making the new law enacted as of that date.

The TRAIN Law, which took effect on January 1, 2018 represents Package 1 of the comprehensive tax reform program of the current administration that aims to correct gaps in the present tax system, allowing it to be more effective and equitable. Below are the salient points of the TRAIN Law.

Reduction in personal income taxes

#### Changes in capital income taxes

Final withholding tax on interest from foreign currency deposits increased to 15% (from 7.5%)

Capital gains tax on unlisted/ untraded shares increased to 15% (from 5%/10%)

Stock transaction tax on listed/ traded shares increased to 6/10 of 1% from (1/2 of 1%)

#### Value-added tax

Certain VAT zero-rated transactions to become subject to 12% VAT upon implementation of VAT refund system

VAT exemption threshold for sale of goods and services increased to ₱3.00 million (from ₱1.90 million)

Included in VAT exempt transactions, among others: transfers of properties pursuant to a tax-free merger; association dues, membership fees, and other assessments and charges collected by homeowners associations and condominium corporations

Increased documentary stamp taxes (DST) rates by 50% to 100%

#### Excise Taxes

Revised excise taxes on cigars and cigarettes, manufactured oils and other fuels, petroleum products, automobiles, and minerals

Expanded scope of excise tax to include non-essential services and sweetened beverages

Although most of the changes will affect individuals, the TRAIN Law also introduced changes to income tax, VAT and DST that may have an impact on the financial statements starting January 1, 2018.

### **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, 2017.

The movement in the retirement benefits obligation for the years ended December 31, 2017 and 2016 is as follows:

|                           | <b>Present value of<br/>retirement<br/>benefits<br/>obligation</b> | <b>Fair value of plan<br/>assets</b> | <b>Net retirement<br/>benefits obligation</b> |
|---------------------------|--|--------------------------------------|---|
| December 31, 2016         | <b>₱ 6,115,355</b>   | <b>(₱ 856,696)</b>                   | <b>₱ 5,258,659</b>                            |
| Retirement expense:       |  |                                      |   |
| Current service costs     | <b>985,415</b>   | <b>–</b>                             | <b>985,415</b>                                |
| Interest expense (income) | <b>329,006</b>   | <b>( 46,090)</b>                     | <b>282,916</b>                                |

|                                  |                    |                    |                    |
|----------------------------------|--------------------|--------------------|--------------------|
|                                  | <b>1,314,421</b>   | <b>( 46,090)</b>   | <b>1,268,331</b>   |
| Remeasurements, gross of tax:    |                    |                    |                    |
| Actuarial loss arising from:     |                    |                    |                    |
| Changes in financial assumptions | ( 220,085)         | –                  | ( 220,085)         |
| Gain (loss) on experience/return | ( 380,840)         | 79,428             | ( 301,412)         |
|                                  | ( 600,925)         | 79,428             | ( 521,497)         |
| <b>December 31, 2017</b>         | <b>₱ 6,828,851</b> | <b>(₱ 823,358)</b> | <b>₱ 6,005,493</b> |

|                                  | Present value of<br>retirement<br>benefits<br>obligation | Fair value of plan<br>assets | Net retirement<br>benefits obligation |
|----------------------------------|--|------------------------------|---------------------------------------|
| December 31, 2015                | ₱ 5,636,964  | (₱ 846,749)                  | ₱ 4,790,215                           |
| Retirement expense:              |  |                              |                                       |
| Current service costs            | 1,217,471  | –                            | 1,217,471                             |
| Interest expense (income)        | 288,613  | ( 43,354)                    | 245,259                               |
|                                  | 1,506,084  | ( 43,354)                    | 1,462,730                             |
| Remeasurements, gross of tax:    |  |                              |                                       |
| Actuarial loss arising from:     |  |                              |                                       |
| Changes in financial assumptions | ( 90,147)  | –                            | ( 90,147)                             |
| Gain (loss) on plan asset        | ( 937,546)   | 33,407                       | ( 904,139)                            |
|                                  | ( 1,027,693)   | 33,407                       | ( 994,286)                            |
| December 31, 2016                | ₱ 6,115,355  | (₱ 856,696)                  | ₱ 5,258,659                           |

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

|                              | 2017        | 2016        |
|------------------------------|-------------|-------------|
| Balance at beginning of year | ₱ 4,680,500 | ₱ 3,686,214 |
| Amounts recognized in OCI    | 521,497     | 994,286     |
|                              | 5,201,997   | 4,680,500   |
| Attributable tax             | 1,560,599   | 1,404,150   |
| Balance at end of year       | ₱ 3,641,398 | ₱ 3,276,350 |

Remeasurement gain, net of deferred tax expense amounted to ₱156,499 and ₱298,286 (see Note 24), in the statements of comprehensive income for the years ended December 31, 2017 and 2016 amounted to ₱365,048 and ₱696,000, respectively.

The total retirement benefits expense recognized is included in operating expenses for the years ended December 31, 2017 and 2016 amounted to ₱1,268,331 and ₱1,462,730, respectively (see Note 22).

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

|                                 | 2017      | 2016      |
|---------------------------------|-----------|-----------|
| Government bonds and securities | ₱ 656,707 | ₱ 638,239 |
| Cash                            | 11,355    | 163,372   |
| Net other assets                | 155,296   | 55,085    |
|                                 | ₱ 823,358 | ₱ 856,696 |

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, 2017 and 2016.

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

|   | 2017              | 2016           |
|---|-------------------|----------------|
| Interest income   | ₱ 46,090          | ₱ 43,354       |
| Actual loss on plan assets, excluding amounts included in net interest cost | ( 79,428)         | ( 33,407)      |
|   | <b>(₱ 33,338)</b> | <b>₱ 9,947</b> |

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

|                      | 2017  | 2016  |
|----------------------|-------|-------|
| Discount rate        | 5.70% | 5.38% |
| Salary rate increase | 5.00% | 5.00% |

The discount rate at December 31, 2017 and 2016 was based on the 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 |                         |                         |
|----------------------|---------------------------------------|-------------------------|-------------------------|
|                      | Change in assumptions                 | Increase in assumptions | Decrease in assumptions |
| Discount rate        | 100 bps                               | Decrease by 10.7%       | Increase 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:

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 equities, which are expected to outperform government bonds in the long-term while providing volatility and risk in the short-term.

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 9.9 years as at December 31, 2017 and 2016.

The Group does not expect any contributions to post-employment benefit plans for the years ending December 31, 2017 and 2016.

Expected maturity analysis of undiscounted retirement benefits obligation as at December 31 follows:

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

| <b>2016</b>                       | Less than a<br>year | Between 1-2<br>years | Between 2-5<br>years | Over 5 years      | Total             |
|-----------------------------------|---------------------|----------------------|----------------------|-------------------|-------------------|
| Retirement benefits<br>obligation | <b>₱</b> –          | <b>₱</b> –           | <b>₱1,757,189</b>    | <b>₱4,276,147</b> | <b>₱6,033,336</b> |

There are no asset-liability matching strategies performed for the years ended December 31, 2017 and 2016.

### **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 part and condominium projects  
 Cebu – subdivision development  
 Iloilo – subdivision development  
 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:

| <b>December 31, 2017</b>     | <b>Metro Manila</b>  | <b>Cebu</b>         | <b>Iloilo</b>       | <b>Davao</b>   | <b>Parent<br/>Company Total</b> |
|------------------------------|----------------------|---------------------|---------------------|----------------|---------------------------------|
| <b>Revenue</b>               |                      |                     |                     |                |                                 |
| Realized gross profit        | <b>₱</b> –           | <b>₱ 67,617,275</b> | <b>₱ 90,581,487</b> | <b>₱</b> –     | <b>₱ 158,198,762</b>            |
| Other income                 | <b>7,082,665</b>     | <b>997,055</b>      | <b>1,109,639</b>    | <b>250,000</b> | <b>9,439,359</b>                |
|                              | <b>7,082,665</b>     | <b>68,614,330</b>   | <b>91,691,126</b>   | <b>250,000</b> | <b>167,638,121</b>              |
| <b>Expenses</b>              |                      |                     |                     |                |                                 |
| Depreciation                 | <b>2,754,752</b>     | <b>531,721</b>      | <b>98,090</b>       | –              | <b>3,384,564</b>                |
| Loss on cancelled contracts  | –                    | <b>20,250,846</b>   | <b>11,997,867</b>   | –              | <b>32,248,713</b>               |
| Other expenses               | <b>32,276,158</b>    | <b>22,716,711</b>   | <b>13,661,133</b>   | <b>196,374</b> | <b>68,850,376</b>               |
|                              | <b>35,030,910</b>    | <b>43,499,279</b>   | <b>25,757,090</b>   | <b>196,374</b> | <b>104,483,653</b>              |
| <b>Segment income (loss)</b> | <b>( 27,948,245)</b> | <b>25,115,051</b>   | <b>65,934,036</b>   | <b>53,626</b>  | <b>63,154,468</b>               |

|                                       |                       |                      |                      |                    |                       |
|---------------------------------------|-----------------------|----------------------|----------------------|--------------------|-----------------------|
| Finance cost                          | 9,567,593             | 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            |
| <b>Net income (loss) for the year</b> | <b>(₱ 67,975,400)</b> | <b>₱ 25,071,905</b>  | <b>₱ 65,899,898</b>  | <b>₱ 53,626</b>    | <b>₱ 19,294,079</b>   |
| <b>Segment assets</b>                 | <b>₱ 578,347,925</b>  | <b>₱ 662,843,640</b> | <b>₱ 378,960,598</b> | <b>₱ 3,818,097</b> | <b>₱1,623,970,260</b> |
| Deferred tax asset                    | 10,704,027            | –                    | –                    | –                  | 10,704,027            |
| <b>Total assets</b>                   | <b>₱ 589,051,952</b>  | <b>₱ 662,843,640</b> | <b>₱ 378,960,598</b> | <b>₱ 3,818,097</b> | <b>₱1,634,674,287</b> |
| <b>Segment liabilities</b>            | <b>₱ 252,121,669</b>  | <b>₱ 124,648,681</b> | <b>₱ 69,298,238</b>  | <b>₱ 126,050</b>   | <b>₱ 446,194,638</b>  |
| Borrowings                            | 110,368,437           | –                    | 934,018              | –                  | 111,302,455           |
| Retirement benefits obligation        | 6,005,493             | –                    | –                    | –                  | 6,005,493             |
| <b>Total liabilities</b>              | <b>₱ 368,495,599</b>  | <b>₱ 124,648,681</b> | <b>₱ 70,232,256</b>  | <b>₱ 126,050</b>   | <b>₱ 563,502,586</b>  |
| December 31, 2016                     |                       |                      |                      |                    |                       |
|                                       | Metro Manila          | Cebu                 | Iloilo               | Davao              | Parent Company Total  |
| Revenue                               |                       |                      |                      |                    |                       |
| Realized gross profit                 |                       |                      |                      | ₱                  |                       |
|                                       | ₱ 451,430             | ₱ 43,680,303         | ₱ 25,829,041         | –                  | ₱ 69,960,774          |
| Other income                          | 9,708,096             | 682,915              | 1,388,527            | –                  | 11,779,538            |
|                                       | 10,159,526            | 44,363,218           | 27,217,568           | –                  | 81,740,312            |
| Expenses                              |                       |                      |                      |                    |                       |
| Depreciation                          | 2,871,859             | 530,389              | 35,012               | –                  | 3,437,260             |
| Loss on cancelled contracts           | 459,899               | 371,117              | 900,998              | –                  | 1,732,014             |
| Other expenses                        | 30,353,532            | 9,293,408            | 6,147,436            | 535,769            | 46,330,145            |
|                                       | 33,685,290            | 10,194,914           | 7,083,446            | 535,769            | 51,499,419            |
| Segment income (loss)                 | ( 23,525,764)         | 34,168,304           | 20,134,122           | ( 535,769)         | 30,240,893            |
| Finance cost                          | 9,567,593             | 186,736              | 2,029,528            | –                  | 11,783,857            |
| Retirement benefits expense           | 1,462,730             | –                    | –                    | –                  | 1,462,730             |
| Provision for income tax              | 15,018,625            | –                    | –                    | –                  | 15,018,625            |
| <b>Net income (loss) for the year</b> | <b>(₱ 49,574,712)</b> | <b>₱ 33,981,568</b>  | <b>₱ 18,104,594</b>  | <b>(₱ 535,769)</b> | <b>₱ 1,975,681</b>    |
| <b>Segment assets</b>                 | <b>₱ 722,609,066</b>  | <b>₱ 566,877,490</b> | <b>₱ 108,924,458</b> | <b>₱ 3,733,210</b> | <b>₱1,402,144,224</b> |
| Deferred tax asset                    | –                     | –                    | –                    | –                  | 8,089,622             |
| <b>Total assets</b>                   | <b>₱ 722,609,066</b>  | <b>₱ 566,877,490</b> | <b>₱ 108,924,458</b> | <b>₱ 3,733,210</b> | <b>₱1,410,233,846</b> |
| <b>Segment liabilities</b>            | <b>₱ 198,743,092</b>  | <b>₱ 44,864,709</b>  | <b>₱ 29,310,631</b>  | <b>₱ 94,789</b>    | <b>₱ 273,013,221</b>  |
| Borrowings                            | 68,823,346            | 9,512,078            | –                    | –                  | 78,335,423            |
| Retirement benefits obligation        | –                     | –                    | –                    | –                  | 5,258,659             |
| <b>Total liabilities</b>              | <b>₱267,566,438</b>   | <b>₱ 54,376,787</b>  | <b>₱ 29,310,631</b>  | <b>₱ 94,789</b>    | <b>₱ 356,607,303</b>  |

Although Davao segment does not meet the quantitative thresholds required by PFRS 8 for reportable segments as at December 31, 2017 and 2016, 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.

## **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 annual minimum lease payments are as follows:

|   | <b>2017</b>        | 2016        |
|---|--------------------|-------------|
| Due within 1 year                           | <b>₱ 747,677</b>   | ₱ 480,335   |
| Due beyond 1 year but not more than 5 years | <b>1,769,100</b>   | 922,415     |
|   | <b>₱ 2,516,777</b> | ₱ 1,402,750 |

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

Total rent expense incurred by the Group related to lease of office space amounted to ₱717,703, ₱681,167 and ₱601,776 in 2017, 2016 and 2015, respectively (see Note 21).

## **CONTINGENCIES**

### *a) Claims from expropriated property in Chateaux Geneva*

In 2006, portions of Chateaux Geneva were involved in an expropriation case 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<sup>nd</sup>) 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, 2017.

*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.

### **EARNINGS PER SHARE**

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

|  | 2017          | 2016          | 2015          |
|--|---------------|---------------|---------------|
| Net income   | ₱ 19,294,079  | ₱ 1,975,681   | ₱ 1,112,145   |
| 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   | ₱ 0.013       | ₱ 0.001       | ₱ 0.001       |

### **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, 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 exposure

The table below shows the gross maximum exposure to credit risk of the Group as at December 31:

|  | 2017                 | 2016                 |
|--|----------------------|----------------------|
| Cash in banks  | ₱ 13,299,540         | ₱ 8,902,544          |
| Trade and other receivables (net)                                  | 524,946,629          | 291,333,462          |
| Advances to related parties (net)                                  | 315,981,430          | 326,424,390          |
| Refundable deposits classified as <i>'Other noncurrent assets'</i> | 6,405,096            | 6,386,355            |
|  | <b>₱ 860,632,695</b> | <b>₱ 633,046,751</b> |

The Group does not hold any collateral as security and other credit enhancement for the above financial assets.

### Aging Analysis of Financial Assets

The aging and quality of financial assets exposed to credit risk is shown below:

| December 31, 2017                     | Total                | Neither<br>Past due nor<br>impaired | Past due but not impaired |                  |                  |                   | Past due<br>and<br>Impaired |
|---------------------------------------|----------------------|-------------------------------------|---------------------------|------------------|------------------|-------------------|-----------------------------|
|                                       |                      |                                     | 1 – 30<br>Days            | 31 – 60<br>days  | 61 – 120<br>Days | Over 121<br>days  |                             |
| Cash in bank                          | ₱ 13,299,540         | ₱ 13,299,540                        | –                         | –                | –                | –                 | –                           |
| Trade and other<br>receivables, gross | 525,525,123          | 435,610,971                         | 7,789,851                 | 3,423,717        | 384,970          | 77,737,120        | 578,494                     |
| Advances to related<br>parties, gross | 356,978,495          | 315,981,430                         | –                         | –                | –                | –                 | 40,997,065                  |
| Refundable deposits                   | 6,405,096            | 6,405,096                           | –                         | –                | –                | –                 | –                           |
|                                       | <b>₱ 902,208,254</b> | <b>₱ 771,297,037</b>                | <b>7,789,851</b>          | <b>3,423,717</b> | <b>384,970</b>   | <b>77,737,120</b> | <b>41,575,559</b>           |

| December 31, 2016                     | Total                | Neither<br>Past due nor<br>impaired | Past due but not impaired |                  |                  |                    | Past due and<br>Impaired |
|---------------------------------------|----------------------|-------------------------------------|---------------------------|------------------|------------------|--------------------|--------------------------|
|                                       |                      |                                     | 1 – 30<br>Days            | 31 – 60<br>days  | 61 – 120<br>Days | Over 121<br>days   |                          |
| Cash in bank                          | ₱ 8,902,544          | ₱ 8,902,544                         | –                         | –                | –                | –                  | –                        |
| Trade and other<br>receivables, gross | 291,911,956          | 173,905,574                         | 675,302                   | 2,440,759        | 4,725,333        | 109,008,000        | 578,494                  |
| Advances to related<br>parties, gross | 367,574,923          | 326,424,390                         | –                         | –                | –                | –                  | 41,150,533               |
| Refundable deposits                   | 6,386,355            | 6,386,355                           | –                         | –                | –                | –                  | –                        |
|                                       | <b>₱ 674,775,778</b> | <b>₱ 515,618,863</b>                | <b>675,302</b>            | <b>2,440,759</b> | <b>4,725,333</b> | <b>109,008,000</b> | <b>41,729,027</b>        |

Impaired accounts represent account of customers that have not paid for a long time and for which the Group believes that a portion of the receivables may not be collected. The allowance is estimated based on the Group's estimate for accounts which it believes may no longer be collected.

Credit quality information for financial assets that are neither past due nor impaired

The credit quality of financial assets is being managed by the Group using internal credit ratings. Based on this, the management assessed that the financial assets that are neither past due nor impaired has high credit quality. This includes deposits to counterparties with good credit rating or bank standing. For receivables, this covers, as at financial reporting date, accounts of good paying customers and employees, with good credit standing and with no history of default for a defined period.

**December 31, 2017**

| Neither past due<br>nor impaired | Cash in banks       | Trade and other<br>receivables | Advances to<br>related parties | Refundable<br>deposits | Total                |
|----------------------------------|---------------------|--------------------------------|--------------------------------|------------------------|----------------------|
| High                             | <b>₱ 13,299,540</b> | <b>₱ 435,610,971</b>           | <b>₱ 315,981,430</b>           | <b>₱ 6,405,096</b>     | <b>₱ 771,297,037</b> |
| Moderate                         | —                   | —                              | —                              | —                      | —                    |
| Low                              | —                   | —                              | —                              | —                      | —                    |
|                                  | <b>₱ 13,299,540</b> | <b>₱ 435,610,971</b>           | <b>₱ 315,981,430</b>           | <b>₱ 6,405,096</b>     | <b>₱ 771,297,037</b> |

December 31, 2016

| Neither past due<br>nor impaired | Cash in banks | Trade and other<br>receivables | Advances to<br>related parties | Refundable<br>deposits | Total         |
|----------------------------------|---------------|--------------------------------|--------------------------------|------------------------|---------------|
| High                             | ₱ 8,902,544   | ₱ 173,905,574                  | ₱ 326,424,390                  | ₱ 6,386,355            | ₱ 515,618,863 |
| Moderate                         | —             | —                              | —                              | —                      | —             |
| Low                              | —             | —                              | —                              | —                      | —             |
|                                  | ₱ 8,902,544   | ₱ 173,905,574                  | ₱ 326,424,390                  | ₱ 6,386,355            | ₱ 515,618,863 |

The credit quality of financial assets is discussed below:

*Cash*

The Group's deposits its cash in a commercial and universal bank to minimize credit risk exposure.

*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.

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

*Advances to related parties*

The Group is pursuing cash collection of the advances to related parties within 2016. 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.

#### *Refundable deposits*

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

#### *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, 2017 and 2016, 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:

| December 31, 2017                                | Maturing in  |                   |                |               | Total         |
|--|--------------|-------------------|----------------|---------------|---------------|
|  | On Demand    | Less than 6 month | 6 to 12 Months | 1 to 5 Years  |               |
| Accounts payable and other liabilities – note 12 | ₱ 41,393,002 | ₱ –               | ₱ –            | ₱ –           | ₱ 41,393,002  |
| Borrowings – note 13                             | –            | –                 | ₱ 58,980,789   | ₱ 52,321,666  | ₱ 111,302,455 |
| Advances from related parties – note 22          | –            | –                 | –              | ₱ 155,841,281 | ₱ 155,841,281 |
| Retention payable and refundable bonds – note 15 | –            | –                 | –              | ₱ 23,641,679  | ₱ 23,641,679  |
|  | ₱ 41,393,002 | ₱ –               | ₱ 58,980,789   | ₱ 231,804,626 | ₱ 332,178,417 |

| December 31, 2016                                | Maturing in  |                   |                |              | Total        |
|--|--------------|-------------------|----------------|--------------|--------------|
|  | On Demand    | Less than 6 month | 6 to 12 Months | 1 to 5 Years |              |
| Accounts payable and other liabilities – note 12 | ₱ 38,043,958 | ₱ –               | ₱ –            | ₱ –          | ₱ 38,043,958 |
| Borrowings – note 13                             | –            | –                 | ₱ 43,432,981   | ₱ 34,902,442 | ₱ 78,335,423 |
| Advances from related parties                    | –            | –                 | –              | –            | –            |

|   |            |   |   |              |              |
|---|------------|---|---|--------------|--------------|
| - note 22   |            |   |   | 123,756,261  | 123,756,261  |
| Retention payable and refundable<br>bonds - note 15 | -          | - | - | 25,116,076   | 25,116,076   |
|   |            | ₱ |   |              |              |
|   | 38,043,958 | ₱ | - | ₱43,432,981  | ₱183,774,779 |
|   |            |   |   | ₱265,251,718 |              |

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, 2017 and 2016, the Group has not engaged in trading financial instruments and has not maintained financial instruments that are carried at fair value.

### **Price risk**

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

If the price of AFS financial asset had been 10% higher/ lower, the other comprehensive income (loss) for the year ended December 31, 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, 2017 and 2016, 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:

| <b>December 31, 2017</b>                | <b>Interest rate</b>   | <b>Interest Terms</b>                             | <b>Within 1 year</b> | <b>Within 1 to 7 years</b> | <b>Total</b>         |
|---|------------------------|---|----------------------|----------------------------|----------------------|
| <b>Financial assets:</b>                |                        |   |                      |                            |                      |
| Cash in banks                           | <b>0.125% to 0.25%</b> | <b>Fixed at the date of investment</b>            | <b>₱ 13,299,540</b>  | <b>₱ -</b>                 | <b>₱ 13,299,540</b>  |
| Installment contract receivables, gross | <b>18%</b>             | <b>Fixed at the date of sale</b>                  | <b>409,758,176</b>   | <b>83,944,865</b>          | <b>493,703,041</b>   |
| Advances to related parties, gross      | <b>2%</b>              | <b>Fixed based on PN issued in 2014 (Note 21)</b> | <b>-</b>             | <b>356,978,495</b>         | <b>356,978,495</b>   |
|   |                        |   | <b>₱ -</b>           | <b>₱ 440,923,360</b>       | <b>₱ 863,981,076</b> |

**423,057,716**

| <b>Financial liabilities:</b>                          |                 |  |                   |                     |                    |
|--|-----------------|--|-------------------|---------------------|--------------------|
| Borrowings (excluding non-interest bearing borrowings) | 10%             | Fixed based on PN issuance                 | ₱                 | ₱                   | ₱                  |
|  |                 |  | <b>58,980,789</b> | <b>52,321,666</b>   | <b>111,302,455</b> |
| December 31, 2016                                      | Interest rate   | Interest Terms                             | Within 1 year     | Within 1 to 7 years | Total              |
| <b>Financial assets:</b>                               |                 |  |                   |                     |                    |
| Cash in banks  | 0.125% to 0.25% | Fixed at the date of investment            | ₱ 8,902,544       | ₱ –                 | ₱ 8,902,544        |
| Installment contract receivables, gross                | 18%             | Fixed at the date of sale                  | 114,778,184       | 148,915,965         | 263,694,149        |
| Advances to related parties, gross                     | 2%              | Fixed based on PN issued in 2014 (Note 21) | –                 | 367,574,923         | 367,574,923        |
|  |                 |  | ₱ 123,680,728     | ₱ 516,490,888       | ₱ 640,171,616      |
| <b>Financial liabilities:</b>                          |                 |  |                   |                     |                    |
| Borrowings (excluding non-interest bearing borrowings) | 10%             | Fixed based on PN issuance                 | ₱ 43,432,981      | ₱ 34,902,442        | ₱ 78,335,423       |

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.

| Change in interest rate | 2017                        |                  | Change in interest rate | 2016                        |                  |
|-------------------------|-----------------------------|------------------|-------------------------|-----------------------------|------------------|
|                         | Effect on income before tax | Effect on equity |                         | Effect on income before tax | Effect on equity |
| +0.5%                   | (₱3,763,393)                | (₱2,634,375)     | +0.5%                   | (₱2,809,181)                | (₱1,966,427)     |
| -0.5%                   | ₱3,763,393                  | ₱2,634,375       | -0.5%                   | ₱2,809,181                  | ₱1,966,427       |

## 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 ₱1,073,285,670 and ₱1,053,626,543 as at December 31, 2017 and 2016, respectively.

The Group's goal in capital management is to maintain a minimum debt-to-equity structure ratio of 1:1 to 1:2 on a monthly basis.

**2017**

2016



|                   |               |               |
|-------------------|---------------|---------------|
| Total liabilities | ₱ 536,287,214 | ₱ 356,607,303 |
| Total equity      | 1,073,285,670 | 1,053,626,543 |
|                   | <b>1:2</b>    | 1:2.95        |

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.

## **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, 2017                | Carrying Value       | Fair value           | Fair value hierarchy | Valuation technique |
|----------------------------------|----------------------|----------------------|----------------------|---------------------|
| <b><u>Assets</u></b>             |                      |                      |                      |                     |
| Installment contract receivables | ₱ 83,944,865         | ₱ 80,268,239         | 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            | 45,500,000           | Level 2              | (e)                 |
| Advances to related parties      | 315,981,430          | 314,732,452          | Level 2              | (c)                 |
|                                  | <b>₱ 412,215,706</b> | <b>₱ 451,451,868</b> |                      |                     |

|   |                      |                      |         |     |
|---|----------------------|----------------------|---------|-----|
| <b><u>Financial Liabilities at amortized cost</u></b> |                      |                      |         |     |
| Advances from related parties                         | ₱ 155,841,281        | ₱ 155,225,288        | Level 2 | (c) |
| Borrowings  | 52,321,666           | 51,079,937           | Level 2 | (d) |
| Retention payable and refundable bonds                | 23,641,679           | 23,080,601           | Level 2 | (b) |
|   | <b>₱ 231,804,626</b> | <b>₱ 229,385,826</b> |         |     |

| December 31, 2016                | Carrying Value       | Fair value           | Fair value hierarchy | Valuation technique |
|----------------------------------|----------------------|----------------------|----------------------|---------------------|
| <b><u>Assets</u></b>             |                      |                      |                      |                     |
| Installment contract receivables | ₱ 148,915,965        | ₱ 132,496,111        | Level 2              | (a)                 |
| Refundable deposits              | 6,386,355            | 6,240,086            | Level 2              | (b)                 |
| Receivable from contractors      | 4,752,170            | 3,769,421            | Level 2              | (b)                 |
| Investment property              | 1,072,016            | 45,500,000           | Level 2              | (e)                 |
| Advances to related parties      | 326,424,390          | 307,589,703          | Level 2              | (c)                 |
|                                  | <b>₱ 487,550,896</b> | <b>₱ 495,595,321</b> |                      |                     |

|   |               |               |         |     |
|---|---------------|---------------|---------|-----|
| <b><u>Financial Liabilities at amortized cost</u></b> |               |               |         |     |
| Advances from related parties                         | ₱ 123,756,261 | ₱ 116,615,525 | Level 2 | (c) |
| Borrowings  | 34,902,442    | 34,074,116    | Level 2 | (d) |
| Retention payable and                                 | 25,116,076    | 19,922,071    | Level 2 | (b) |

refundable bonds

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|               |               |
|---------------|---------------|
| ₱ 183,774,779 | ₱ 170,611,712 |
|---------------|---------------|

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The fair values of cash, current trade and other receivables, available-for-sale financial assets, current portion of borrowings, and accounts payable and other liabilities approximate their carrying amounts as at reporting dates due to the short-term nature of transactions.

### ***Fair value estimation***

The fair value of installment contract receivable included under trade and other receivables are based on the discounted value of future cash using the discount rates of 18% at December 31, 2017 and 2016, respectively.

The fair value of receivable from contractors, refundable deposits, and retention payable and refundable bonds are determined based on discounted value using the applicable rate of 4.921% in 2017 and 4.743% in 2016 for fixed income government securities of five (5) years.

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 2017 and 2016, respectively.

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 3.044% to 4.744% in 2017 and 3.875% to 4.000% in 2016.

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.

### **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 for the year ended December 31, 2017 is as follows:

|                                  | Balance as at<br>January 1, 2017 | Changes from<br>financing cash flows | Balance as at<br>December 31, 2017 |
|----------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| Borrowings                       | <b>₱ 78,335,423</b>              | <b>₱ 32,967,032</b>                  | <b>₱ 111,302,455</b>               |
| Advances from related<br>parties | <b>₱ 123,756,261</b>             | <b>₱ 32,085,020</b>                  | <b>₱ 155,841,281</b>               |

\* \* \*

**Diaz Murillo Dalupan  
and Company**

Certified Public Accountants

**Audit Report on Additional Components  
of the Financial Statements**

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

We have audited the accompanying financial statements of **Philippine Estates Corporation and Subsidiary** as at and for the year ended December 31, 2017, on which we have rendered the attached report dated April 18, 2018. The supplementary information shown in Appendices A to C, and Schedules A to I, as additional components required by Rule 68, Part I, Section 4 of the Securities Regulation Code, are presented for purposes of filing with the Securities and Exchange Commission and are not required part of basic financial statements. Such information are the responsibility of management and have been subjected to auditing procedures applied in the audits of basic financial statements. In our opinion, the information have been prepared in accordance with Rule 68 of the Securities Regulation Code.

**Diaz Murillo Dalupan and Company**

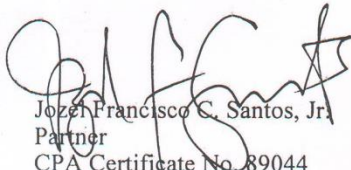
Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until August 11, 2020

SEC Accreditation No. 0192-FR-2, Group A, effective until May 1, 2019

BIR Accreditation No. 08-001911-000-2016, effective until March 17, 2019

By:



Jozer Francisco C. Santos, Jr.  
Partner

CPA Certificate No. 89044

SEC Accreditation No. 1070-AR-2, Group A, effective until May 3, 2020

Tax Identification No. 170-035-673

PTR No. 6615254, January 4, 2018, Makati City

BIR Accreditation No. 08-001911-009-2016 effective until March 17, 2019

April 18, 2018

**Local in Touch, Global in Reach**

Head Office : 7th Floor, Don Jacinto Building, Dela Rosa corner Salcedo Sts., Legaspi Village, Makati City 1229 Philippines  
Telephone: +63(2) 894 5892 - 95 / 894 0273 / 844 9421 - 23 / Fax: +63(2) 818 1872

Cebu Office : Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Phone: +63(32) 415 8108 - 10 / Fax: +63(32) 232 8029

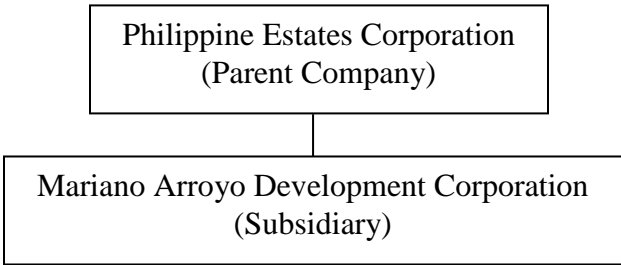
Davao Office : 3rd Floor Building B Plaza De Luisa, Ramon Magsaysay Avenue, Davao City 8000 Phone/Fax: +63(82) 222 8636

Website : [www.dmdcpa.com.ph](http://www.dmdcpa.com.ph)

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**APPENDIX A – FINANCIAL SOUNDNESS**  
DECEMBER 31, 2017 and 2016

|                                       | <b>2017</b>   | 2016   |
|---------------------------------------|---------------|--------|
| <b>Profitability ratios:</b>          |               |        |
| Return on assets                      | <b>1.20%</b>  | 0.14%  |
| Return on equity                      | <b>1.80%</b>  | 0.19%  |
| Net profit margin                     | <b>5.20%</b>  | 2.84%  |
| Gross profit margin                   | <b>60.46%</b> | 58.86% |
| <b>Solvency and liquidity ratios:</b> |               |        |
| Current ratio                         | <b>4.73:1</b> | 6.27:1 |
| Quick ratio                           | <b>1.88:1</b> | 1.06:1 |
| Debt to equity ratio                  | <b>0.50:1</b> | 0.34:1 |
| Cash flow liquidity ratio             | <b>NIL</b>    | 0.07:1 |
| <b>Financial leverage ratio:</b>      |               |        |
| Asset to equity ratio                 | <b>1.50:1</b> | 1.34:1 |
| Debt to asset ratio                   | <b>0.33:1</b> | 0.25:1 |
| Interest rate coverage ratio          | <b>4.62:1</b> | 2.44:1 |

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**APPENDIX B – MAP OF CONGLOMERATE OR GROUP**  
**OF COMPANIES WITHIN WHICH THE COMPANY BELONGS**  
DECEMBER 31, 2017



**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**APPENDIX C – STANDARDS AND INTERPRETATIONS EFFECTIVE**  
**AS AT DECEMBER 31, 2017**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as at December 31, 2017  |  | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|--|----------------|--------------------|-----------------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |  | ✓              |                    |                       |
| <b>PFRSs Practice Statement Management Commentary</b>   |  |                |                    | ✓                     |
| <b>Philippine Financial Reporting Standards</b>   |  |                |                    |                       |
| <b>PFRS 1 (Revised)</b>   | First-time Adoption of Philippine Financial Reporting Standards                                    |                |                    | ✓                     |
|   | Amendments to PFRS 1: Additional Exemptions for First-time Adopters                                |                |                    | ✓                     |
|   | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters |                |                    | ✓                     |
|   | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters      |                |                    | ✓                     |
|   | Amendments to PFRS 1: Government Loans   |                |                    | ✓                     |
| <b>PFRS 2</b>   | Share-based Payment  |                |                    | ✓                     |
|   | Amendments to PFRS 2: Vesting Conditions and Cancellations   |                |                    | ✓                     |
|   | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                          |                |                    | ✓                     |
| <b>PFRS 3 (Revised)</b>   | Business Combinations  |                |                    | ✓                     |
| <b>PFRS 4</b>   | Insurance Contracts  |                |                    | ✓                     |
|   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                     |                |                    | ✓                     |
| <b>PFRS 5</b>   | Non-current Assets Held for Sale and Discontinued Operations                                       |                |                    | ✓                     |
| <b>PFRS 6</b>   | Exploration for and Evaluation of Mineral Resources  |                |                    | ✓                     |
| <b>PFRS 7</b>   | Financial Instruments: Disclosures   | ✓              |                    |                       |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                              | ✓              |                    |                       |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as at December 31, 2017 |   | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|--|---|----------------|--------------------|-----------------------|
|  | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓              |                    |                       |
|  | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                               | ✓              |                    |                       |
|  | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets                                     | ✓              |                    |                       |
|  | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities             | ✓              |                    |                       |
|  | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   |                |                    | ✓                     |
| <b>PFRS 8</b>  | Operating Segments  | ✓              |                    |                       |
| <b>PFRS 9 (2014)</b>   | Financial Instruments   |                | ✓                  |                       |
| <b>PFRS 10</b>   | Consolidated Financial Statements   | ✓              |                    |                       |
|  | Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance                                       |                |                    | ✓                     |
|  | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities  |                |                    | ✓                     |
|  | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception  |                |                    | ✓                     |
| <b>PFRS 11</b>   | Joint Arrangements  |                |                    | ✓                     |
|  | Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance                                       |                |                    | ✓                     |
|  | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations                   |                |                    | ✓                     |
| <b>PFRS 12</b>   | Disclosure of Interests in Other Entities   |                |                    | ✓                     |
|  | Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance                                       |                |                    | ✓                     |
|  | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities  |                |                    | ✓                     |
|  | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception  |                |                    | ✓                     |
| <b>PFRS 13</b>   | Fair Value Measurement  | ✓              |                    |                       |
| <b>PFRS 14</b>   | Regulatory Deferral Accounts  |                |                    | ✓                     |



| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as at December 31, 2017 |   | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|--|---|----------------|--------------------|-----------------------|
| <b>Philippine Accounting Standards</b>   |   |                |                    |                       |
| <b>PAS 1 (Revised)</b>   | Presentation of Financial Statements  | ✓              |                    |                       |
|  | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation |                |                    | ✓                     |
|  | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income                              | ✓              |                    |                       |
|  | Amendments to PAS 1: Disclosure Initiative  | ✓              |                    |                       |
| <b>PAS 2</b>   | Inventories   | ✓              |                    |                       |
| <b>PAS 7</b>   | Statement of Cash Flows   | ✓              |                    |                       |
|  | Amendments to PAS 7: Disclosure Initiative  | ✓              |                    |                       |
| <b>PAS 8</b>   | Accounting Policies, Changes in Accounting Estimates and Errors                                       | ✓              |                    |                       |
| <b>PAS 10</b>  | Events after the Reporting Period   | ✓              |                    |                       |
| <b>PAS 11</b>  | Construction Contracts  |                |                    | ✓                     |
| <b>PAS 12</b>  | Income Taxes  | ✓              |                    |                       |
|  | Amendments to PAS 12: Deferred Tax: Recovery of Underlying Assets                                     | ✓              |                    |                       |
|  | Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses                        | ✓              |                    |                       |
| <b>PAS 16</b>  | Property, Plant and Equipment   | ✓              |                    |                       |
|  | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | ✓              |                    |                       |
|  | Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants   |                |                    | ✓                     |
| <b>PAS 17</b>  | Leases  | ✓              |                    |                       |
| <b>PAS 18</b>  | Revenue   | ✓              |                    |                       |
| <b>PAS 19 (Revised)</b>  | Employee Benefits   | ✓              |                    |                       |
|  | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions                                   |                |                    | ✓                     |
| <b>PAS 20</b>  | Accounting for Government Grants and Disclosure of Government Assistance                              |                |                    | ✓                     |
| <b>PAS 21</b>  | The Effects of Changes in Foreign Exchange Rates  |                |                    | ✓                     |
|  | Amendment: Net Investment in a Foreign Operation  |                |                    | ✓                     |
| <b>PAS 23 (Revised)</b>  |   | ✓              |                    |                       |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as at December 31, 2017 |  | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|--|--|----------------|--------------------|-----------------------|
|  | Borrowing Costs  |                |                    |                       |
| <b>PAS 24 (Revised)</b>  | Related Party Disclosures  | ✓              |                    |                       |
| <b>PAS 26</b>  | Accounting and Reporting by Retirement Benefit Plans   |                |                    | ✓                     |
| <b>PAS 27 (Amended)</b>  | Separate Financial Statements  |                |                    | ✓                     |
|  | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities   |                |                    | ✓                     |
|  | Amendments to PAS 27: Equity Method in Separate Financial Statements                                   |                |                    | ✓                     |
| <b>PAS 28 (Amended)</b>  | Investments in Associates and Joint Ventures   |                |                    | ✓                     |
|  | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception   |                |                    | ✓                     |
| <b>PAS 29</b>  | Financial Reporting in Hyperinflationary Economies   |                |                    | ✓                     |
| <b>PAS 32</b>  | Financial Instruments: Presentation  | ✓              |                    |                       |
|  | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation  |                |                    | ✓                     |
|  | Amendment to PAS 32: Classification of Rights Issues   |                |                    | ✓                     |
|  | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                            |                |                    | ✓                     |
| <b>PAS 33</b>  | Earnings per Share   | ✓              |                    |                       |
| <b>PAS 34</b>  | Interim Financial Reporting  |                |                    | ✓                     |
| <b>PAS 36</b>  | Impairment of Assets   | ✓              |                    |                       |
|  | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets                          | ✓              |                    |                       |
| <b>PAS 37</b>  | Provisions, Contingent Liabilities and Contingent Assets   | ✓              |                    |                       |
| <b>PAS 38</b>  | Intangible Assets  |                |                    | ✓                     |
|  | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization  |                |                    | ✓                     |
| <b>PAS 39</b>  | Financial Instruments: Recognition and Measurement   | ✓              |                    |                       |
|  | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓              |                    |                       |
|  | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                   |                |                    | ✓                     |
|  | Amendments to PAS 39: The Fair Value Option  |                |                    | ✓                     |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as at December 31, 2017 |   | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|--|---|----------------|--------------------|-----------------------|
|  | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts  |                |                    | ✓                     |
|  | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                   | ✓              |                    |                       |
|  | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition   | ✓              |                    |                       |
|  | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                        |                |                    | ✓                     |
|  | Amendment to PAS 39: Eligible Hedged Items  |                |                    | ✓                     |
|  | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting                      |                |                    | ✓                     |
| <b>PAS 40</b>  | Investment Property   | ✓              |                    |                       |
| <b>PAS 41</b>  | Agriculture   |                |                    | ✓                     |
|  | Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants   |                |                    | ✓                     |
| <b>Philippine Interpretations</b>  |   |                |                    | ✓                     |
| <b>IFRIC 1</b>   | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                |                |                    | ✓                     |
| <b>IFRIC 2</b>   | Members' Share in Co-operative Entities and Similar Instruments   |                |                    | ✓                     |
| <b>IFRIC 4</b>   | Determining Whether an Arrangement Contains a Lease   |                |                    | ✓                     |
| <b>IFRIC 5</b>   | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    |                |                    | ✓                     |
| <b>IFRIC 6</b>   | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment |                |                    | ✓                     |
| <b>IFRIC 7</b>   | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies       |                |                    | ✓                     |
| <b>IFRIC 9</b>   | Reassessment of Embedded Derivatives  |                |                    | ✓                     |
|  | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                        |                |                    | ✓                     |
| <b>IFRIC 10</b>  | Interim Financial Reporting and Impairment  |                |                    | ✓                     |
| <b>IFRIC 12</b>  | Service Concession Arrangements   |                |                    | ✓                     |
| <b>IFRIC 13</b>  | Customer Loyalty Programmes   |                |                    | ✓                     |
| <b>IFRIC 14</b>  | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction                |                |                    | ✓                     |
|  | Amendments to Philippine Interpretations IFRIC- 14,   |                |                    | ✓                     |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br><b>Effective as at December 31, 2017</b> |  | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|--|----------------|--------------------|-----------------------|
|   | Prepayments of a Minimum Funding Requirement                                 |                |                    |                       |
| <b>IFRIC 16</b>   | Hedges of a Net Investment in a Foreign Operation                            |                |                    | ✓                     |
| <b>IFRIC 17</b>   | Distributions of Non-cash Assets to Owners                                   |                |                    | ✓                     |
| <b>IFRIC 18</b>   | Transfers of Assets from Customers   |                |                    | ✓                     |
| <b>IFRIC 19</b>   | Extinguishing Financial Liabilities with Equity Instruments                  |                |                    | ✓                     |
| <b>IFRIC 20</b>   | Stripping Costs in the Production Phase of a Surface Mine                    |                |                    | ✓                     |
| <b>IFRIC 21</b>   | Levies   |                |                    | ✓                     |
| <b>SIC-7</b>  | Introduction of the Euro   |                |                    | ✓                     |
| <b>SIC-10</b>   | Government Assistance - No Specific Relation to Operating Activities         |                |                    | ✓                     |
| <b>SIC-15</b>   | Operating Leases - Incentives  |                |                    | ✓                     |
| <b>SIC-25</b>   | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders    |                |                    | ✓                     |
| <b>SIC-27</b>   | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓              |                    |                       |
| <b>SIC-29</b>   | Service Concession Arrangements: Disclosures                                 |                |                    | ✓                     |
| <b>SIC-31</b>   | Revenue - Barter Transactions Involving Advertising Services                 |                |                    | ✓                     |
| <b>SIC-32</b>   | Intangible Assets - Web Site Costs   |                |                    | ✓                     |

Not Applicable – Standards and interpretations that are effective as at January 1, 2017 but will never be applicable to the Group due to the nature of its operations or not relevant to the Group because there are currently no related transactions.

Not Adopted – Standards and interpretations that are already issued but are not effective for the year ended December 31, 2017 and were not early adopted by the Group.

Please refer to Note 2 to the consolidated financial statements for related discussion on the assessed impact on the Group's consolidated financial statements on the adoption of new standards and interpretations effective in 2017 including standards effective in 2017 and onwards.

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE A – FINANCIAL ASSETS**  
DECEMBER 31, 2017

| Name of issuing entity and associate of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the statement of financial position | Valued based on market quotation at end of reporting period | Income received and accrued |
|--|---|---|---|-----------------------------|
| Waterfront Manila<br>Premier Development, Inc.     | 125,000   | ₱ 12,500,000  | —   | —                           |

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES,**  
**RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
DECEMBER 31, 2017

| Name and designation of debtor     | Balance at beginning of period | Additional         | Accrual of Interest | Amounts collected    | Amounts written-off | Current    | Non-Current         | Balance at end of period |
|------------------------------------|--------------------------------|--------------------|---------------------|----------------------|---------------------|------------|---------------------|--------------------------|
| Plastic City Corp.                 | ₱ 180,462,367                  | ₱ –                | ₱3,470,430          | ₱ –                  | ₱ –                 | ₱ –        | ₱183,932,797        | ₱183,932,797             |
| Forum Holdings Corp.               | 74,176,194                     | –                  | 1,426,465           | –                    | –                   | –          | 75,602,659          | 75,602,659               |
| Kennex Container Corp.             | 33,258,636                     | –                  | 553,916             | –                    | –                   | –          | 33,812,552          | 33,812,552               |
| Orient Pacific Corp.               | 32,265,044                     | –                  | 445,640             | –                    | –                   | –          | 32,710,684          | 32,710,684               |
| Heritage Pacific Corp.             | 19,394,591                     | –                  | 372,973             | –                    | –                   | –          | 19,767,564          | 19,767,564               |
| Noble Arch Realty and Construction | 3,979,197                      | 56,083             | 361,128             | –                    | –                   | –          | 4,396,408           | 4,396,408                |
| Bataan Polyethylene Corp.          | 183,232                        | –                  | –                   | –                    | ( 183,232)          | –          | –                   | –                        |
| The Wellex Group, Inc.             | 22,665,360                     | 34,802,370         | 335,472             | ( 57,803,202)        | –                   | –          | –                   | –                        |
| International Polymer Corp.        | 1,190,302                      | 5,563,601          | 1,928               | –                    | –                   | –          | 6,755,831           | 6,755,831                |
|                                    | <b>₱367,574,923</b>            | <b>₱40,422,054</b> | <b>₱6,994,594</b>   | <b>(₱57,803,202)</b> | <b>( ₱183,232)</b>  | <b>₱ –</b> | <b>₱315,981,430</b> | <b>₱315,981,430</b>      |

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES**  
**WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF**  
**FINANCIAL STATEMENTS**  
 DECEMBER 31, 2017

| Name and designation of debtor         | Balance at beginning of period | Cash advance during the year | Amounts written-off | Current | Non-Current | Balance at end of period |
|--|--------------------------------|------------------------------|---------------------|---------|-------------|--------------------------|
| Mariano Arroyo Development Corporation | ₱ 107,921                      | ₱ –                          | ₱ –                 | ₱ –     | ₱ 107,921   | ₱ 107,921                |

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE D – INTANGIBLE ASSETS - OTHER ASSETS**  
DECEMBER 31, 2017

| Description | Beginning balance | Additions at cost | Charged to cost and expenses | Charged to other accounts | Other charges additions (deductions) | Ending balance |
|-------------|-------------------|-------------------|------------------------------|---------------------------|--------------------------------------|----------------|
|-------------|-------------------|-------------------|------------------------------|---------------------------|--------------------------------------|----------------|

**Not Applicable**

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**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE E – LONG TERM DEBT**  
 DECEMBER 31, 2017

| Title of issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of long term debt" in related statement of financial position | Amount shown under caption "Long-term debt" un the related statement of financial position |
|---------------------------------------|--------------------------------|---|--|
| Loan payable                          | Not Applicable                 | ₱ 58,980,789  | ₱ 52,321,666   |

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS**  
**FROM RELATED COMPANIES)**  
 DECEMBER 31, 2017

| Name of related party      | Balance at beginning<br>of period | Balance at end<br>of period |
|----------------------------|-----------------------------------|-----------------------------|
| <b>Affiliates</b>          |                                   |                             |
| Waterfront Cebu City Hotel | ₱ 92,054,457                      | ₱ 92,054,457                |
| The Wellex Group, Inc.     | –                                 | 32,092,370                  |
| Pacific Rehouse Corp.      | 27,704,628                        | 27,697,278                  |
| Concept Moulding Corp.     | 3,830,646                         | 3,830,646                   |
| Manila Pavilion            | 166,530                           | 166,530                     |
|                            | <b>₱ 123,756,261</b>              | <b>₱ 155,841,281</b>        |

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE G – GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
DECEMBER 31, 2017

| Name of issuing entity of securities guaranteed by the Company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person for which statement is filed | Nature of guarantee |
|--|---|---|---|---------------------|
|--|---|---|---|---------------------|

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**Not Applicable**

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE H – CAPITAL STOCK**  
DECEMBER 31, 2017

| Title of issue | Number of shares authorized | Number of shares issued and outstanding as shown under related statement of financial position caption | Number of shares reversed for options, warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others      |
|----------------|-----------------------------|--|--|--|-----------------------------------|-------------|
| Common shares  | 5,000,000,000               | 1,445,549,830  | –  | 682,510,990                              | 3,058,100                         | 759,980,740 |

**PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY**  
**SCHEDULE I – List of Top 20 Stockholders of Record**  
DECEMBER 31, 2017

| Name of Stockholders        | Citizenship  | Tax Identification No. | Amount Subscribed | Percentage to<br>total<br>Outstanding |
|-----------------------------|--------------|------------------------|-------------------|---------------------------------------|
| PCD Nomine Corporation      | Filipino     | 004-774-849-000        | ₱699,569,350      | 48.40                                 |
| Rexlon Realty Group, Inc.   | Filipino     | 000-810-908-000        | 200,000,000       | 13.83                                 |
| Ropeman International Corp. | Filipino     | 000-125-390-000        | 178,270,000       | 12.33                                 |
| Recovery Real Estate Corp.  | Filipino     | 000-599-326-000        | 150,000,000       | 10.37                                 |
| The Wellex Group, Inc.      | Filipino     | 004-740-001-000        | 143,892,990       | 9.95                                  |
| PCD Nominee Corporation     | Non-Filipino | 117-922-145-000        | 59,816,010        | 4.13                                  |
| Recovery Development Corp.  | Filipino     | 000-810-182-000        | 3,000,900         | 0.20                                  |
| Vicente C. Co               | Filipino     |                        | 1,575,000         | 0.10                                  |
| Richard Ricardo             | Filipino     | 140-857-860-000        | 1,230,000         | 0.08                                  |
| Renato B. Magadia           | Filipino     | 000-942-390-000        | 1,000,000         | 0.06                                  |
| Anthony Samuel Lee          | Filipino     |                        | 900,000           | 0.06                                  |
| International Polymer Corp. | Filipino     | 000-232-426-000        | 718,000           | 0.05                                  |
| Juliet Bangayan             | Filipino     |                        | 545,000           | 0.04                                  |
| Rodolfo S. Estrellado       | Filipino     |                        | 500,000           | 0.03                                  |
| Elvira A. Ting              | Filipino     | 117-922-153-000        | 500,000           | 0.03                                  |
| Benison L. Co               | Filipino     |                        | 364,000           | 0.02                                  |
| Kenneth T. Gatchalian       | Filipino     | 167-406-526-000        | 320,000           | 0.02                                  |
| Carolina G. Aquino          | Filipino     | 135-899-752-000        | 250,000           | 0.01                                  |
| Betty S. Chan               | Filipino     |                        | 250,000           | 0.01                                  |
| Neptali A. Gonzales         | Filipino     |                        | 250,000           | 0.01                                  |
|                             |              |                        | ₱1,442,951,250    |                                       |

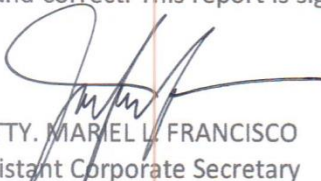
UNDERTAKING

A copy of SEC Form 17-A will be provided free of charge written request to the Following:

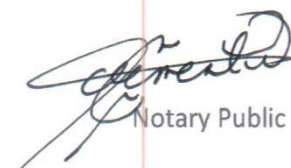
CORPORATE SECRETARY  
Philippine Estates Corporation  
Units 3503 and 3504  
35<sup>th</sup> Floor, One Corporate Center  
Julia Vargas Ave., corner Meralco Ave.  
Ortigas Center, Pasig City  
Metro Manila

PART III

After reasonable inquiry and to the best knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on AUG 14 2018, 2018.

  
ATTY. MARIEL L. FRANCISCO  
Assistant Corporate Secretary  
TIN : 224-150-060

Subscribed and sworn to before me this 14 AUG 2018 at Pasig City, affiant exhibiting to me her IBP ID with Roll No. 57260.

  
Notary Public

Doc. No. 54 ;  
Page No. 12 ;  
Book No. 2 ;  
Series of 2018.

**Atty. Lady Mae A. Clemente**  
PTR No. 3983436; 1-24-18 Pasig  
IBP Membership No. 029705; RSM  
Roll No. 69675  
MCLE Compliance No VI-0003249  
Appointment No. 207 (2017-2018)  
35<sup>th</sup> Floor One Corporate Centre,  
Julian Vargas Avenue corner Meralco Avenue,  
Ortigas Center, Pasig City

**CERTIFICATION**

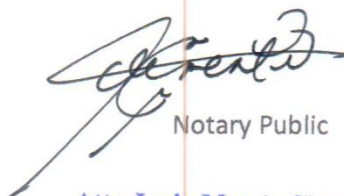
I, ATTY. MARIEL L. FRANCISCO, being the duly elected Assistant Corporate Secretary of Philippine Estates Corporation (herein after the "Corporation"), a corporation duly organized and existing under and by virtue of Philippine laws with principal office address at 35<sup>th</sup> Floor of One Corporate Centre, Doña Julia Vargas Avenue corner Meralco Avenue, Ortigas Center, Pasig City, Metro Manila, Philippines, do hereby certify that none of the Officers and Directors of the Corporation are currently holding positions in government and are therefore qualified to be elected, hold and maintain the same position consistent with the mandate of the Securities and Regulations Code and other pertinent SEC Memorandum Circulars.

**IN ATTESTATION OF THE ABOVE**, this Certification is signed      day of AUG 14 2018 2018, at Pasig City, Metro Manila.



**MARIEL L. FRANCISCO**  
Assistant Corporate Secretary

**SUBSCRIBED AND SWORN** to before me, this 14 day of AUG 2018 at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 224-150-060) with her photograph appearing thereon.



Notary Public

Doc. No. 55 ;  
Page No. 12 ;  
Book No. 2 ;  
Series of 2018.

**Atty. Lady Mae A. Clemente**  
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