SEC NO. 112978

SEC Registration No.

PHILIPPINE ESTATES CORPORATION

(Company's Full Name)

35TH FLR ONE CORPORATE CENTRE

JULIA VARGAS COR. MERALCO AVE.

ORTIGAS CENTER, PASIG CITY

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

JOCELYN A. VALLE

Contact Person

8637-3112

Contact Telephone No.

12 31

SEC-17A

FORM TYPE

Annual Meeting

Secondary License Type, If Applicable

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

706

Total No. of Stockholders

PHP 85,731,766

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

MSEC Number 112978
File Number ______

PHILIPPINE ESTATES CORPORATION

(Company's Full Name)

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

(Company's Address)

(02) 8637-3112

(Telephone Number)

December 31

(Fiscal Year Ending)
(month & day)

SEC FORM 17-A
(Form Type)

Amended Designation (if applicable)

2019

Period Ended Date

(Secondary Licensed Type and File Number

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2019**.

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

4. Exact name of issuer as specified in its charter **PHILIPPINE ESTATES CORPORATION**

5. **METRO MANILA, PHILIPPINES** (SEC Use Only)
Province, Country or other jurisdiction of incorporation or organization
Industry Classification Code:

7. **35th Floor, One Corporate Centre, Julia Vargas Avenue cor. Meralco, Avenue Ortigas Center, Pasig City** **1605**
Address of principal office Postal Code

8. Telephone No. **8637-3112** Area Code: **02**
Issuer's telephone number, including area code

9. **N/A**
Former name, former address, and former fiscal year, if changed since last report.

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

Authorized Capital Stocks: Common shares 5,000,000,000 with par Value of P1.00 per share

No. of shares of Common Stock Issued and Outstanding: **1,445,549,830 Common Shares**

Amount of Debt Outstanding: **₱ 85,731,766** (as per Financial Statements)

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

Yes [X] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:
PHILIPPINE STOCK EXCHANGE **COMMON SHARES**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [X] No [ ]

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

Yes [X] No [ ]

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

Number of Shares	P 760,980,740
Market price as of 12/31/19	0.43
Aggregate Market Value as of 12/31/2019	P 327,221,718
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PART 1 – BUSINESS

A. Description of Business:

(1) Business Development

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

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

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

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

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

(2) Business of Issuer

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

The following are the projects of the Company:

Completed Projects:

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

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

   (No revenue for 2019)

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

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

   (No revenue for 2019)

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

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

   (No revenue for 2019)

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

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

   Revenue for 2019: P 10,112,000 4.76%

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

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

   Revenue for 2019: P 7,518,829 3.54%

6. ***Chateaux Geneva.***

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

   (No revenue for 2019)

7. ***Pacific Grand Villas Phase IV.***

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

Revenue for 2019: ₱ 22,782,000   10.72%

8. Pacific Grand Townhomes Phase 1.

The Pacific Grand Townhomes is a middle-class Victorian-themed townhouse project located in Lapu-Lapu City. It boasts of the exclusivity of a pocket community, consisting of 43 units of elegantly designed houses. This stylish community is proximate to private and public institutions, recreational areas, schools, resorts, business and trade centers.

Revenue for 2019: ₱ 20,936,473   9.85%

ONGOING / CURRENT PROJECTS:

1. Costa Smeralda.

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

Revenue for 2019: ₱ 54,585,387   25.68%

2. Wellford Homes @ Jaro Grand Estates (Phase 3) – Parcel A

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 1.7 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 almost completed.

Revenue for 2019: P 37,277,419   17.53%

3. Wellford Residences – Mactan

As the Company's answer to the housing backlog in the economic sector in the area, PHES launched Wellford Residences-Mactan. WR–Mactan is a two-tower medium rise condominium project in one of the Company's prime and highly accessible properties in Mactan, Cebu. Located in Barangay Suba-Basbas in the City of Lapu-Lapu, the project will offer around 180 condominium units and is expected to generate for the Company approximately P541M in 2nd quarter is being pushed to 2021.

Revenue for 2019: P 59,385,705 27.93%

PROJECTS IN THE PIPELINE

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

Wellford Homes is a residential development with an area of approximately 6.7 hectares located in Barangay Longos, Malolos City, Bulacan. This horizontal development is American inspired. Housing design reflects the suburban feel with the American ambiance reflected even in the design of the community facilities and amenities. The subdivision is designed to provide generous areas for roads and open spaces, which accounts for nearly 42% of the total developable area. Based on the projections, the development will generate Php1.15 Billion gross revenues upon completion of the project. The Company is awaiting the release of HLURB's License to Sell.

2. ***Wellford Homes @ Jaro Grand Estates (Phase 3) - Parcel B***

In line with the Company's aim of expanding the existing American-inspired subdivision project Wellford Homes I located at Jaro, Iloilo, the Company is expected to launch Wellford Homes II (WHII) by 2020. WH II will have combined 326 units of House and Lot and Lots only. This project expansion covers an area of around 8.76 hectares. House-and-Lot packages have floor areas of 63 to73 sq.m and Lots only have areas of at least 120 sq.m. The said expansion is expected to generate a projected Gross Revenue approximately Php1.0 Billion when completed. The Company has started its application for a License to Sell (LTS) with the HLURB.

FUTURE PROJECT(S)

1. ***Pacific Grand Villas Phase 5***

A follow-up to the highly successful Pacific Grand Villas series in Lapu-Lapu City, Mactan, Cebu, Phase 5 is an expansion of the village with Modern Design theme. The master planned community will offer larger lot cuts and spacious houses. Situated in the main entrance avenue by the commercial area, prime sections of this phase will offer specially-designed home-buildings, which will be sold together with a luxurious housing component in this low density phase. The development is in its final evaluation.

2. ***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 45 hectare enclaves: the JGE North, comprising of at least five themed residential villages, and the JGE-South that is planned for commercial mixed-use developments. When completed, the 40-hectare JGE-

South is envisioned to feature its own commercial and restaurant strips, office and business centers, education area, and a hotel and tourist district.

Competition:

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

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

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

Banks are more aggressive now in extending working capital to developers and financing to buyers. The government too is very visible in promoting its programs to answer the backlog in housing. The Company has solid relationship with both private and government institutions for its clients’ financing requirements.

In light of these, and the resilience of Filipinos to internal and external changes, the overall outlook on the Philippine economy as it relates to the real estate industry remains optimistic. Indeed, new projects being offered in the market signifying renewed confidence of buyers and investors.

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

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

The real estate industry continues to grow, both for the local market and Filipinos overseas, whether OFW's or those who have relatives who are citizens abroad, or who happen to be married to foreigners. For the local market, there remains a real demand for millions of houses that is still unserved. There is a trend towards providing more affordable packages in order to meet the real need of a wider market base other than targeting the high-end market which, although the market remains, has become more cautious, and has much less sales velocity and demands bigger upfront capital input. Currently we cater more to the middle-income residential market. Competition in pricing has become stiffer. We introduced more affordable house-and-lot packages whose prices and terms are easier for the wider market. Currently, our projects are mainly in Lapu-Lapu City, Cebu and in Iloilo

City. The Company sees itself primarily as a developer of prime properties, not only in Metro Manila, but also in urban areas outside the capital, like Cebu and Iloilo. The registrant also plans to extend operations in rapidly growing areas in the south and across the countryside as well. The Company believes there remains a large untapped market in these locations offering tremendous opportunities for high-value properties. These areas also offer less competitors and relatively less expensive land component.

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

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

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

Sources and availability of raw materials:

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

Transactions with and/or dependence on related parties:

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

Details of the Group's advances to related parties for the years ended December 31, 2019 and 2018 are as follows:

December 31, 2019	At beginning of Year	Additional advances/ Impairment	Accrual of interest – note 20	application/ reversal of impairment	At end of year
Common key management					
Plastic City Corp. *(a)*	**₱185,555,706**	**₱ –**	**₱3,627,609**	**₱ –**	**₱189,183,315**

Forum Holdings Corp. *(b)*	**36,911,382**	**–**	**709,324**	**–**	**37,620,706**
Kennex Container Corp. *(b)*	**34,488,803**	**–**	**662,251**	**–**	**35,151,054**
Orient Pacific Corp. *(b)*	**33,183,063**	**–**	**472,379**	**–**	**33,655,442**
Construction *(c)*	**4,657,425**	**21,082**	**81,612**	**–**	**4,760,119**
Pacific Rehouse Corporation *(f)*	**587,064**	**586,068**	**–**	**(303,368)**	**869,764**
Metro Alliance Holdings and Equities Corporation *(e)*	**–**	**278,270,000**	**–**	**–**	**278,270,000**
Stockholders					
International Polymer Corp. *(b)(d)*	**1,562,908**	**–**	**24,484**	**(360,000)**	**1,227,392**
	296,946,351	**278,877,150**	**5,577,659**	**(663,368)**	**580,737,792**
Allowance for ECL	**(27,006,459)**	**(1,141,693)**	**–**	**–**	**(28,148,152)**
	₱269,939,892	**₱277,735,457**	**₱5,577,659**	**(₱663,368)**	**₱552,589,640**

December 31, 2018	At beginning of Year	**Additional advances/ Impairment**	**Accrual of interest**	Collection/ application/ reversal of impairment	At end of year
Common key management					
Plastic City Corp. *(a)*	₱ 183,932,797	₱ 500,000	₱ 3,675,235	(₱2,552,326)	₱ 185,555,706
Forum Holdings Corp. *(b)*	75,602,659	–	1,445,159	(40,136,436)	36,911,382
Kennex Container Corp. *(b)*	33,812,552	700,000	676,251	(700,000)	34,488,803
Orient Pacific Corp. *(b)*	32,710,684	–	472,379	–	33,183,063
Heritage Pacific Corp. *(b)*	19,767,564	–	–	(19,767,564)	–
Construction *(c)*	4,396,408	447,961	87,092	(274,036)	4,657,425
Pacific Rehouse Corporation	–	587,064	–	–	587,064
Stockholders					
International Polymer Corp.*(b)(d)*	6,755,831	1,057,250	127,499	(6,377,672)	1,562,908
	356,978,495	3,292,275	6,483,615	(69,808,034)	296,946,351
Allowance for ECL	(42,333,672)	–	–	(15,898,059)	(27,006,459)
	₱314,644,823	₱3,292,275	₱6,483,615	(₱85,706,093)	₱269,939,892

Details of the Group's advances from related parties as at December 31, 2019 and 2018 are as follows:

December 31, 2019	**At beginning of Year**	**Additional Advances from Related Parties**	**Settlement/ Reversal**	**At end of year**
Common key management				
Waterfront Cebu City Hotel	**₱ 92,054,457**	**₱ –**	**₱ –**	**₱ 92,054,457**
Pacific Rehouse Corp.		**5,000**	**(5,000)**	**–**
Concept Moulding Corp.	**3,830,646**	**–**	**–**	**3,830,646**
Manila Pavilion	**166,530**	**–**	**–**	**166,530**
The Wellex Group, Inc.	**6,416,954**	**16,555,446**	**(15,000,000)**	**7,972,340**
	₱102,468,587	**₱ 16,560,445**	**(₱15,005,000)**	**₱104,024,033**

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

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

a) *Plastic City Corporation (PCC)*

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

On May 2, 2011, PCC and the Group re-entered into a memorandum of agreement wherein PCC will transfer the ownership of the said properties as payment to its outstanding obligation to the Group. On December 21, 2018, PCC and Group reissue a promissory note indicating an extension of term for another three (3) years, starting January 31, 2018 and will mature on January 31, 2021. As at December 31, 2019 and 2018, the outstanding advances to PCC has not been settled, the transfer of property from PNB to PCC is still pending.

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

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

c) *Noble Arch Realty and Construction Corporation (NARCC)*

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

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

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

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

d) Installment contract receivables from IPC

In addition to the advances made to related parties, the Group also has unsecured and unguaranteed installment contract receivables from IPC due beyond one (1) year which are to be settled through cash amounting to ₱4,340,519 as at December 31, 2019 and 2018 (see Note 5).

e) Metro Alliance Holdings and Equities Corporation (MAHEC)

The Group has outstanding advances to MAHEC pertaining to the value of real estate inventories transferred by the Group. These advances are unsecured, with no definite terms of repayment and with no guarantee. The advances are to be collected through cash.

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 Group. The total remuneration of these personnel is as follows:

	2019	2018	2017
Short-term employee benefits	**₱ 3,672,000**	₱ 3,817,138	₱ 4,779,020
Post-employment benefits	**306,000**	318,095	396,577
Share-based payments	**–**	–	–
Other long-term benefits	**–**	–	–
	₱ 3,978,000	₱ 4,135,233	₱ 5,175,597

g.)Transaction with the retirement fund

The Group has no transactions with its retirement plan other than its benefits paid and contributions to the fund in 2019.

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

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

Effect of existing or probable governmental regulations on the business:

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

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

Cost and effect of compliance with environmental laws:

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

Need for any governmental approval of principal products and services:

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

Item 2. Properties

The Company has the following real estate properties:

PROJECT/ PROPERTY	*LOCATION*	*AREA*	*REMARKS*
Pacific Grand Villas 1	Mactan Island Cebu	10.2 has (531 lots)	Completed
Pacific Grand Villas 2	Mactan Island Cebu	8.70 has (261 lots)	Completed
Pacific Grand Villas 3	Mactan Island Cebu	8.40 has	Completed
Pacific Grand Villas 4	Mactan Island Cebu	6.70 has	

4A			96.00% Complete
4B			99.14% Complete
Pacific Grand Townhomes	Mactan Island Cebu	7,359 sqm.	Completed
MetroTech Industrial Park (formerly Plastic City Industrial Park)	Valenzuela City	30 has (110 lots)	Completed
Chateaux Geneva (JV w/ PRC)	Jaro, Iloilo City	10 has (421 lots)	Completed
Pearl of the Orient Tower (formerly Embassy Pointe Tower) (JV w/ Pearl of the Orient Realty & Devt. Corp.)	Roxas Blvd.	7,600 sqm. (91 units)	Completed
Costa Smeralda (Coastal Villas)	Jaro, Iloilo	8.9 has	99.85% Complete
Wellford Homes	Jaro	10 has (106 units)	83.12% Complete

Facilities owned by the Company are generally in good condition.

For the year 2019, the Company secured another credit line/loan from Luzon Development Bank in the amount of ₱12.1million in April, additional ₱5.9 million in June and another ₱20 million in October, obtained for working capital requirements. The notes carry interest rate of 11% p.a. and payable in 1-2 years, with interest payable monthly in advance. The loan is secured with real estate properties.

Item 3. Legal Proceedings

a) Claims from expropriated property in Chateaux Geneva

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

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

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

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

On February 23, 2018, PRC and the PHES through their legal counsel filed a Motion for Reconsideration on the said decision which was denied, hence the appeal to the Supreme Court.

On January 28, 2019, the Supreme Court issued an Entry of Judgment on the appeal filed by PHES and PRC, declaring the case as closed and terminated. From the denial of the Motion for Reconsideration by the Court of Appeal Visayas, the Republic filed a petition for certiorari before the Supreme Court. PHES & PRC filed Comment on June 11, 2019 and Motion for Early Resolution on September 20, 2019. To this date, the Honorable Supreme Court has yet to act on the Motion.

b) Other lawsuits and claims

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

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

During the Annual Stockholders' Meeting held on October 8, 2019, the following matters formed part of the Agenda and were submitted to the vote of, and were subsequently approved by a unanimous vote of the stockholders owning 65% of the shares issued and outstanding:

a. Call to Order.
b. Certification of Notice and Quorum.
c. Approval of Minutes of the Previous Stockholders' Meeting.
d. Report to the Stockholders for the Year 2018.
e. Ratifications of the Acts of the Board and Management.
f. Election of Directors for 2019-2020.
g. Appointment of External Auditor.
h. Appointment of External Counsel

i. Other matters.
j. Adjournment.

(a) Elected members of the Board of Directors:

NAMES	AGE	CITIZENSHIP
KENNETH T. GATCHALIAN	42	FILIPINO
ELVIRA A. TING	58	FILIPINO
DEE HUA T. GATCHALIAN	70	FILIPINO
JOAQUIN P. OBIETA	85	FILIPINO
ARTHUR R. PONSARAN	75	FILIPINO
ARTHUR M. LOPEZ	72	FILIPINO
RENATO B. MAGADIA	81	FILIPINO
BYONG YOO SUH*	62	KOREAN
SERGIO R. ORTIZ-LUIS, JR*	77	FILIPINO
JAMES B. PALIT-ANG	55	FILIPINO
RICHARD L. RICARDO	55	FILIPINO

**** Independent Directors***

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

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS:

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

The case pending before the Office of the City Prosecutor of lloilo City was dismissed in compliance with the Compromise Agreement. With regard to the pending appeal before the Department of Justice, complainant submitted a Motion to Dismiss with Affidavit of Desistance attached on the motion. The DOJ has not yet acted on the Motion to Dismiss.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

1. Market Information

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

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

	2019		**2018**	
	High	*Low*	*High*	*Low*
Q1	0.49	0.44	0.48	0.30
Q2	0.49	0.44	0.49	0.39
Q3	0.52	0.41	0.55	0.42
Q4	0.46	0.39	0.48	0.41

- ***The share price as of December 31, 2019 was P0.43.***

2. Holders

   The number of holders of common shares as of December 31, 2019 was 706.

   Names of the Top Twenty (20) shareholders as of December 31, 2019, the number of shares held, and the percentage of total shares outstanding held by each.

Rank	Stockholder's Name	No. of Shares Held	% of Ownership
1	PCD NOMINEE CORPORATION (Filipino)	723,064,350	50.020
2	REXLON REALTY GROUP, INC.	200,000,000	13.836
3	ROPEMAN INTERNATIONAL CORP.	178,270,000	12.332
4	RECOVERY REAL ESTATE CORP.	150,000,000	10.377
5	THE WELLEX GROUP, INC.	143,892,990	9.954
6	PCD NOMINEE CORPORATION (Non-Filipino)	36,321,010	2.513
7	RECOVERY DEVELOPMENT CORP.	3,000,900	0.208
8	VICENTE C. CO	1,575,000	0.109
9	RICHARD L. RICARDO	1,230,000	0.085
10	RENATO B. MAGADIA	1,000,000	0.069
11	ANTHONY SAMUEL LEE	900,000	0.062
12	INTERNATIONAL POLYMER CORP.	718,000	0.050
13	JULIET BANGAYAN	545,000	0.038
14	RODOLFO S. ESTRELLADO	500,000	0.035
15	ELVIRA A. TING	500,000	0.035
16	BENISON L. CO	364,000	0.025
17	KENNETH T. GATCHALIAN	320,000	0.022
18	CAROLINA G. AQUINO	250,000	0.017
19	BETTY S. CHAN	250,000	0.017
20	NEPTALI A. GONZALES	250,000	0.017

3. Dividends

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

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

4. Recent Sale of Unregistered Securities

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

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

A) FULL FISCAL YEAR:

Results of Operations:

In 2019, the Company was able to post a consolidated net sales of ₱ 212.60M compared to ₱ 306.91M sales of 2018 showing a decrease of -30.73% or ₱ 94.31M.

The Company's current ratio registered at 3.17:1. Current Assets reached ₱ 0.94B while Current Liabilities registered at ₱ 0.30B. Debt-to-equity ratio registered at 0.47:1. The

Balance Sheet shows accounts indicative of positive liquidity condition. Total assets registered at ₱ 1.60B.

Comparative Top Key Performance Indicators of the Company:

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

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

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

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

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

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

INDICATOR	**2019**	**2018**
Return on Sales	4.83%	11.02%
Past Due Ratio	5%	5%
Gross Profit Rate	54.82%	57.44%
Working Capital Turnover	0.13	0.33
Sales Projection	412M	489M
Sales Variance	-48.40%	-37.42%

Financial Condition:

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

a. Cash – the decrease of 29.85% was basically attributable to the payments of prior years' payables and current payables incurred particularly on the newly set up sales office in Malolos.

b. Current Trade and Other Receivables – the decrease of 8.73% was due to the slump in sales.

c. Real Estates Inventories – the decrease of 38.95% was due to a reclassification from raw land inventory to advances to affiliates.

d. Prepayments and Other Current Assets - the decrease of 32.85% was due to application of creditable withholding tax for the year's income tax due.

e. Non-Current Trade and Other Receivables – the increase of 34.82% was due to an increase of old accounts from external customers

f. Advances to Related Parties – the increase of 104.71% was due to a reclassification from raw land inventory to advances to affiliates.

g. Deferred Tax Assets – the increase of 16.40% was due to higher corporate income tax paid per ITR than on the tax due per financial statements for the year.

h. Accounts Payable and Other Liabilities – the increase of 19.38% was due to an increase of advance payments made by the customers for their titling fees.

i. Borrowings – the decrease of 24.26% was due to payment of matured loans.

j. Customers' Deposits – the decrease of 49.62% was due to increase in reported sales from the reservations made in prior's year.

k. Retirement Benefits Obligation - the increase 28.79% was due to an expense recognized based on actuarial valuation for 2019.

l. Deferred Tax Liabilities – the decrease of 10.35% was due to excess of taxable realized gross profit over financial realized gross profit.

m. Remeasurement Gain on Retirement Benefits- the decrease 43.04% was due to an increase of changes in financial assumptions for the year's actuarial valuation

3. ANALYSIS OF PRIOR YEAR OPERATIONS AND FINANCIAL CONDITION:

Results of Operations:

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

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

Comparative Top Key Performance Indicators of the Company:

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

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

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

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

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

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

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

Financial Condition:

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

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

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

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

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

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

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

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

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

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

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

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

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

Comparative Top Key Performance Indicators of the Company:

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

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

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

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

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

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

INDICATOR	**2017**	**2016**

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

Financial Condition:

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

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

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

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

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

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

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

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

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

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

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

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

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

Comparative Top Key Performance Indicators of the Company:

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

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

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

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

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

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

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

Financial Condition:

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

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

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

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

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

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

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

PLAN OF OPERATION

The Company plans to complete the remaining site development works of Phase 4 of Pacific Grand Villas in Cebu, Wellford Homes Jaro – Parcel A in Iloilo, as well as a portion of Phase 1 of Wellford Homes Malolos in Bulacan,

The Company is also in the midst of completing numerous houses for delivery to buyers. These include several rows of townhouses in Pacific Grand Townhomes, single detached units in Pacific Grand Villas and Costa Smeralda, and duplex units in Wellford Homes Jaro. Qualified buyers will also have their units awarded for construction before the end of the year. Furthermore, in order to assist the marketing efforts in Wellford Homes Malolos, the Company aims to complete several model houses before the end of 2020.

The Company will start the construction of Wellford Residences – Mactan by the first quarter of 2021. The first tower will have 80 condominium units and is expected to be completed by the first half of 2022.

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

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

New Residential and Commercial Projects

Having been able to launch, in successive years, its first condominium project in Wellford Residences Mactan, and its first horizontal project in Luzon in Wellford Homes Malolos, the next step for the Company is to prepare for the coming years.

Planning is currently underway for the next phase to be launched Pacific Grand Villas, which will be a purely residential phase, with fewer units, but bigger houses and lot cuts to be offered.

Planning is likewise ongoing for the next residential phase of Wellford Homes Jaro. Based on the clamor for bigger housing units and lot areas, the next phase of the said project will deviate from the duplex units that were offered in Parcel A.

Next to be planned will be the commercial components of Jaro Grand Estates in Iloilo, which will be developed in the coming years, in anticipation of the increasing number of residents in our horizontal projects.

Other Notes to Operations and Financials:

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

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

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

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

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

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

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

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

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

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

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

- **Internal and external sources of liquidity**

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

Item 7. Financial Statements

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

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

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

Independent Public Accountant

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

1. Audit and Audit-Related Fees

	YEAR	AMOUNT
a. Audit of Financial Statement	2019	₱ 600,000
	2018	537,075

2. No audit fees for other related services

3. Tax Fees	2019	nil
	2018	nil

4. All other fees

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

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

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

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

   a. **DEE HUA T. GATCHALIAN** – 70 years old, Filipino **((Director)**
   - President – Wellex Industries, Inc.
   - Vice President/Director – The Wellex Group, Inc.
   - Chairwoman and President – Westland Pacific Properties Corp.
   - Chairwoman and President – Palawan Estates Corp

   b. **KENNETH T. GATCHALIAN** – 42 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** – 58 years old, Filipino **(President/CEO)**
   - Director / President – Forum Pacific, Inc.
   - Vice President/Director – Wellex Industries, Inc.
   - Director/ Treasurer – Waterfront Philippines, Inc.
   - Vice Chairman /Director – Acesite Philippines, Inc.
   - Treasurer/ Director – Recovery Dev't Corp.
   - Chairwoman and President – Orient Pacific Corp.
   - Director – Plastic City Industrial Corp.
   - Treasurer / Director – The Wellex Group, Inc
   - Chairwoman and President – Crisanta Realty & Development Corp
   - Corp. Secreatary / Director – Waterfront Manila Premier Development, Inc..

   d. **JOAQUIN P. OBIETA -** 85 years old, Filipino **(Director)**
   - Managing Partner – Corporate Counsels, Phils.
   - Director – Forum Pacific, Inc.

   e. **RENATO B. MAGADIA** – 81 years old, Filipino **(Director)**
   - Chairman – ZetaMark, Inc., Mabuhay Vinyl Corporation, Metro Alliance Holdings & Equities Corporation
   - Vice Chairman – Acesite (Phils.) Hotel Corporation

   f. **ARTHUR M. LOPEZ** – 72 years old, Filipino **(Chairman)**
   - Country Representative – CCA Management B.V.
   - Consultant – Bellevue Resort, Bellevue Suites and Palmerston Hotel
   - Chairman – Acesite Philippines Hotel Corporation
   - Director – Waterfront Hotels

   g. **ARTHUR R. PONSARAN -** 75 years old, Filipino **(Director)**
   - Managing Partner – Corporate Counsels, Phils.
   - Director – Forum Pacific, Inc., Acesite (Phils.) Hotel Corporation

- Corporate Secretary – Waterfront Philippines Incorporation, Wilcon Corporation
- Chairman – Value Management & Options Corp. and Marfour Credit Corporation

h. **BYOUNG HYUN SUH** – 62 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** – 55 years old, Filipino **(Director/VP- Property Management)**
- Chairman & President – Noble Arch Realty & Construction 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**.- 77 years old, Filipino **(Independent Director)**
- President/CEO – Philippine Exporters Confederation, Inc.
- Independent Director – Waterfront Philippines, Inc.
- Vice Chairman - Alliance Global, Inc.
- Director – Acesite (Phils.) Hotel Corp.
- Honorary Chair/Treasurer – Phil. Chamber of Commerce & Industry
- Founding Director - Int'l. Chamber of Commerce of the Phils.
- Director – Manila Exposition Complex, Inc. (WTC)
- Director – The Wellex Group.

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

m. **MARIEL FRANCISCO** – 38 years old, Filipino **(Asst. Corporate Secretary)**
- Senior Associate – Corporate Counsels, Philippines Law Offices
- Corporate Secretary – Wellex Industries, Inc.
- Assistant Corporate Secretary – Acesite (Phils.) Hotel Corporation, Forum Pacific, Inc.

1. The term of office of the Directors is one (1) year. All of the directors and executive officers, except for Messrs. Joaquin P. Obieta, Sergio R. Ortiz-Luis, Jr., James B.

Palit-Ang and Richard L. Ricardo have served for eighteen (18) years. We take note of SEC Memorandum Circular No. 9 Series of 2011, regarding the Term Limits for Independent Directors and we are presently reviewing the term limits of our current Independent Directors.

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

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

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

Item 10. Executive Compensation

1. Estimated Compensation :

Name and Principal position	*Year*	*Salary*	*Bonus*	*Other Annual Compensation (13th Mo.)*
ELVIRA A. TING President & CEO	2019	₱ 840,000.00	0.00	₱70,000.00
PANTIG, GLENN GERALD Chief Operating Officer	2019	₱ 1,200,000.00	0.00	₱ 100,000.00
JAMES B. PALIT-ANG VP – Property Mgt.	2019	₱ 624,000.00	0.00	₱ 52,000.00
JOCELYN A. VALLE Finance Head	2019	₱ 504,000.00	0.00	₱ 42,000.00
FERDINAND P. HALILI Operations Head	2019	₱ 504,000.00	0.00	₱ 42,000.00

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

1. **Security Ownership of Certain Record and Beneficial Owners:**

Class	***Name and Address of Record/Beneficial Owner***	***Citizenship***	***Amount and Nature Record/Beneficial Ownership ("r" or "b")***	***% to Total***

Common 10.377%	RECOVERY REAL ESTATE CORP. * 35th FLR. ONE CORPORATE CTR JULIA VARGAS COR. MERALCO AVE. PASIG CITY	FILIPINO	P 150,000,000 "r"
Common 13.836%	REXLON REALTY GROUP, INC. ** 22nd FLR. CITIBANK TOWER 8741 PASEO DE ROXAS MAKATI CITY	FILIPINO	P 200,000,000 "r"
Common 12.332%	ROPEMAN INT'L., CORP. *** #7 T. SANTIAGO STREET CANUMAY, VALENZUELA METRO MANILA	FILIPINO	P 178,270,000 "r"
Common 9.954%	THE WELLEX GROUP, INC. **** 35th FLR. ONE CORPORATE CTR JULIA VARGAS COR. MERALCO AVE. PASIG CITY	FILIPINO	P 143,892,990 "r"

2. Security Ownership of Management

Class	***Name and Address of Record/Beneficial Owner***	***Citizenship***	***Amount and Nature Record/Beneficial Ownership ("r" or "b")***	***% to Total***
Common	Elvira A. Ting President/CEO	Filipino	500,000	0.035%
Common	Kenneth T. Gatchalian Vice Chairman	Filipino	320,000	0.022%
Common	James B. Palit-Ang VP – Land Mgt.	Filipino	1,000	0.000%
Common	Dee Hua T. Gatchalian Director	Filipino	2,000	0.000%
Common	Arthur M. Lopez Chairman	Filipino	1,000	0.000%
Common	Renato B. Magadia Director	Filipino	1,000,000	0.069%
Common	Joaquin P. Obieta Director	Filipino	1,100	0.000%
Common	Sergio R. Ortiz-Luis, Jr. Independent Director	Filipino	1,000	0.000%
Common	Arthur R. Ponsaran Director	Filipino	1,000	0.000%
Common	Richard L. Ricardo Director/Treasurer	Filipino	1,230,000	0.085%

Common	Byoung Hyun Suh Independent Director	Korean	1,000	0.000%

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

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

Item 12. Certain Relationships and Related Transactions.

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

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

Report on SEC Form 17-C was filed by the Company on July 30, 2019 with the following information:

"Please be informed that the annual meeting of the stockholders of PHILIPPINE ESTATES CORPORATION held on October 8, 2019, the following matters were taken up and acted upon by the Board and the Stockholders in the manner indicated:

1. The stockholders elected the members of the Board of Directors to serve for the term 2019-2020. Those elected regular members of the Board were:

   Mr. Kenneth T. Gatchalian
   Ms. Elvira A. Ting
   Ms. Dee Hua T. Gatchalian
   Mr. Arthur M. Lopez
   Mr. Renato B. Magadia
   Atty. Arthur R. Ponsaran
   Atty. Joaquin P. Obieta
   Mr. Richard L. Ricardo
   Mr. James B. Palit-Ang
   Mr. Sergio R. Ortizs-Luis, Jr. (Independent Director)
   Mr. Byoung Hyun Suh (Independent Director)

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

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

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

a) Chairman	- Mr. Arthur M. Lopez
b) Vice-Chairman	- Mr. Kenneth T. Gatchalian
c) President	- Ms. Elvira A. Ting
d) Treasurer/Investor Relations Officer	- Mr. Richard L. Ricardo
e) Corporate Secretary	- Atty. Arsenio A. Alfiler Jr.
f) Asst. Corporate Secretary	- Atty. Mariel Francisco
g) Chief Risk Officer	- James Palit-Ang
h) Chief Audit Executive	- Byoung Hyun Suh
i) Compliance Officer	- Jocelyn A. Valle
j) Lead Independent Director	- Sergio Ortiz-Luis Jr.

AUDIT COMMITTEE

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

EXECUTIVE COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

PART IV – CORPORATE GOVERNANCE

For submission on July 30, 2020

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this SEC FORM 17-A for the year 2019 is signed on behalf of the issue by the undersigned thereunto duly authorized, in the City of Pasig on 11 Jun 2020.

By:

ARTHUR M. LOPEZ
Chairman

ELVIRA A. TING
President & CEO

RICHARD L. RICARDO
Treasurer

JOCELYN A. VALLE
Finance Head/Corp. Information Officer

SUBSCRIBED AND SWORN to before me this 22 day of JUN, 2020 affiants exhibited to me their respective competent evidences of identity as follows:

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

ATTY. JOSE FLORO P. CRISOLOGO
Notary Public
Until December 31, 2020
Adm. Matter No. [illegible] (2020-2021)
PTR No. [illegible] Q.C.
IBP [illegible]
Roll No. [illegible]
MCLE VI-0017[illegible] Valid Until 4-14-2022
Tin No. 1[illegible]-979-[illegible]
Add: 5 General de Jesus Heroes Hills
Brgy. Sta. Cruz, Fisherman Q.C.

Doc No. 470
Page No. 67
Book No. 18
Series of 2020

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1	1	2	9	7	8					

Company Name

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY

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

35TH FLOOR ONE CORPORATE CENTER, DOÑA JULIA VARGAS AVE. COR. MERALCO AVE., ORTIGAS CENTER, PASIG CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
phes_finance@yahoo.com	637-3112	NA

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
706	October/08	Dec-31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Jocelyn A. Valle	phes_finance@yahoo.com	637-3112	NA

Contact Person's Address

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

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

PHILIPPINE ESTATES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY** is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with Philippine Financial Reporting Standards (PFRS), and for such internal control as Management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud of error.

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

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

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

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

ARTHUR M. LOPEZ
Chairman of the Board

ELVIRA A. TING
President / CEO

RICHARD L. RICARDO
Treasurer

SUBSCRIBED AND SWORN to before me this 22 JUN 2020
Affiant exhibited to me his/her

DOC. NO. 698
PAGE NO. 78
BOOK NO. 18
SERIES OF 2020

ATTY. JOSE FLORO P. CRISOLOGO
Notary Public
Until December 31, 2020
Adm. Matter No. [illegible] (2020-2021)
PTR No. [illegible] Q.C.
IBP Lifetime No. [illegible]
Roll No. [illegible]
MCLE VI-0017262 Valid Until 4-14-2022
Tin No. [illegible]
Add: 5 General de [illegible] Hills
Brgy. Sta. Cruz, [illegible] Q.C.

Signed this 11 day of June, 2020

Philippine Estates Corporation and Subsidiary

Financial Statements
December 31, 2019 and 2018

and

Independent Auditors' Report

Independent Auditors' Report

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

Report on the Audits of the Consolidated Financial Statements

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with 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 audits 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 in the succeeding pages to be the key audit matters to be communicated in our report.

First time Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted the new lease standard, PFRS 16, Leases, under the modified retrospective approach which resulted to changes in the Group's lease recognition policies, processes, procedures and controls. The Group's adoption of PFRS 16 is significant to our audit because it involves application of significant management judgement and estimation in the following areas: (1) whether the contract contains a lease; (2) determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease; (3) determining the incremental borrowing rates; and (4) selection and application of accounting policy elections and practical expedients available under modified retrospective approach. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱4,115,836 (with accumulated amortization of ₱1,409,686) and ₱2,805,171, respectively, as at January 1, 2019, and recognition of depreciation expense and finance costs of ₱953,839 and ₱254,990, respectively, for the year ended December 31, 2019. The disclosures related to the adoption of PFRS 16 are included in Notes 10 and 28 to the consolidated financial statements.

Our Response

Our audit procedures to address the assessment in adoption of the PFRS 16 included the following:

- Obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered under PFRS 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.
- Inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements), identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.
- Reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.
- Tested the parameters used in the determination of the incremental borrowing rate by reference to market data.
- Test computed the lease calculation prepared by management on a sample basis, including the transition adjustments, if any.
- Reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

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.

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

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

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

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

Auditors' Responsibilities for the Audits of the Consolidated Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on 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.

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

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

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

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

By:

Richard Noel M. Ponce
Partner
CPA Certificate No. 120457
SEC Accreditation No.1738-A, Group A, effective until January 30, 2022
Tax Identification No. 257-600-228
PTR No. 8147698, January 18, 2020, Makati City
BIR Accreditation No. 08-001911-012-2019, effective until September 29, 2022

June 11, 2020

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Position

	As at December 31	
	2019	2018
ASSETS		
Current Assets		
Cash - note 4	**₱ 13,004,316**	₱ 18,536,645
Trade and other receivables (net) - note 5	**508,997,744**	557,681,937
Real estate inventories - note 6	**398,215,592**	652,315,293
Prepayments and other current assets - note 7	**17,347,713**	25,834,843
	937,565,365	1,254,368,718
Noncurrent Assets		
Advances to related parties (net) - note 23	**552,589,640**	269,939,892
Trade and other receivables (net of current portion) - net - note 5	**41,752,876**	30,968,359
Property and equipment (net) - note 10	**41,583,149**	42,954,558
Financial asset at FVOCI - note 8	**12,500,000**	12,500,000
Investment property - note 9	**1,072,016**	1,072,016
Deferred tax assets (net) - note 25	**4,399,617**	3,779,843
Other noncurrent assets - note 11	**7,125,080**	7,141,166
	661,022,378	368,355,834
TOTAL ASSETS	**₱ 1,598,587,743**	₱ 1,622,724,552
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other liabilities - note 12	**₱ 87,596,142**	₱ 73,377,391
Deferred gross profit - note 16	**138,573,511**	142,196,397
Borrowings - note 13	**65,773,920**	85,552,116
Lease liabilities - note 28	**686,947**	–
Customers' deposits - note 14	**2,901,678**	5,759,604
	295,532,198	306,885,508
Noncurrent Liabilities		
Advances from related parties - note 23	**104,024,033**	102,468,587
Borrowings (net of current portion) - note 13	**19,957,846**	27,645,379
Lease liabilities (net of current portion) - note 28	**1,209,496**	–
Retention payable and refundable bonds - note 15	**23,659,157**	24,444,408
Deferred tax liabilities - note 25	**58,902,665**	65,702,972
Retirement benefits obligation - note 26	**10,027,135**	7,785,795
	217,780,332	228,047,141
	513,312,530	534,932,649
Equity		
Capital stock - note 17	**1,445,549,830**	1,445,549,830
Remeasurement gain on retirement benefits - note 26	**1,919,268**	3,369,577
Deficit	**(362,193,885)**	(361,127,504)
	1,085,275,213	1,087,791,903
TOTAL LIABILITIES AND EQUITY	**₱ 1,598,587,743**	₱ 1,622,724,552

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

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Consolidated Statements of Comprehensive Income

	For the Years Ended December 31		
	2019	2018	2017
REAL ESTATE SALES - note 18	**₱212,597,813**	₱ 306,912,405	₱370,961,767
COST OF REAL ESTATE SOLD - note 19	**(96,061,696)**	(130,621,844)	(146,684,748)
GROSS PROFIT	**116,536,117**	176,290,561	224,277,019
DEFERRED GROSS PROFIT	**(68,028,081)**	(79,615,714)	(83,488,313)
REALIZED GROSS PROFIT DURING THE YEAR	**48,508,036**	96,674,847	140,788,706
REALIZED GROSS PROFIT FROM PREVIOUS YEARS SALES	**59,634,967**	28,908,282	17,410,056
TOTAL REALIZED GROSS PROFIT - note 16	**108,143,003**	125,583,129	158,198,762
OTHER INCOME - note 20	**7,584,886**	27,420,024	9,439,359
OPERATING EXPENSES - note 21	**(90,985,957)**	(105,652,745)	(105,751,984)
FINANCE COSTS - note 22	**(14,468,118)**	(13,517,163)	(13,400,827)
INCOME BEFORE INCOME TAX	**10,273,814**	33,833,245	48,485,310
PROVISION FOR INCOME TAX - note 25			
Current	**18,039,694**	7,090,364	1,320,013
Deferred	**(6,798,520)**	9,498,109	27,871,218
	11,241,174	16,588,473	29,191,231
NET INCOME (LOSS) FOR THE YEAR	**(967,360)**	17,244,772	19,294,079
OTHER COMPREHENSIVE INCOME (LOSS)			
Not subject to reclassification adjustment:			
Remeasurement gain (loss) on retirement benefits (net) - note 26	**(1,450,309)**	(271,821)	365,048
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(₱ 2,417,669)**	₱ 16,972,951	₱ 19,659,127
EARNINGS (LOSS) PER SHARE - note 30	**(₱ 0.001)**	₱ 0.012	₱ 0.013

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

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Consolidated Statements of Changes in Equity

	Capital Stock (Note 17)	Remeasurement Gain on Retirement Benefits (net) (Note 26)	Deficit	Total
Balance, January 1, 2017	₱ 1,445,549,830	₱ 3,276,350	(₱ 395,199,637)	₱ 1,053,626,543
Comprehensive income				
Net income for the year	–	–	19,294,079	19,294,079
Remeasurement gain on retirement benefits - note 26	–	365,048	–	365,048
Total comprehensive income for the year	–	365,048	19,294,079	19,659,127
Balance as at December 31, 2017, as previously stated	1,445,549,830	3,641,398	(375,905,558)	1,073,285,670
Effect on adoption of PFRS 9			(2,466,718)	(2,466,718)
Balance as at January 1, 2018, as restated	1,445,549,830	3,641,398	(378,372,276)	1,070,818,952
Comprehensive income (loss)				
Net income for the year	–	–	17,244,772	17,244,772
Remeasurement loss on retirement benefits - note 26	–	(271,821)	–	(271,821)
Total comprehensive income (loss) for the year	–	(271,821)	17,244,772	16,972,951
Balance as at December 31, 2018, as previously stated	**1,445,549,830**	**3,369,577**	**(361,127,504)**	**1,087,791,903**
Effect on adoption of PFRS 16 - note 2	–	–	**(99,021)**	**(99,021)**
Balance as at January 1, 2019, as restated	**1,445,549,830**	**3,369,577**	**(361,226,525)**	**1,087,692,882**
Comprehensive loss				
Net loss for the year	–	–	**(967,360)**	**(967,360)**
Remeasurement loss on retirement benefits - note 26	–	**(1,450,309)**	–	**(1,450,309)**
Total comprehensive loss for the year	–	**(1,450,309)**	**(967,360)**	**(2,417,669)**
Balance as at December 31, 2019	**₱ 1,445,549,830**	**₱ 1,919,268**	**(₱ 362,193,885)**	**₱ 1,085,275,213**

(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		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax	**₱ 10,273,814**	₱ 33,833,245	₱ 48,485,310
Adjustments for:			
Loss on cancelled contracts - note 21	**17,401,681**	27,905,574	32,248,713
Finance costs - note 22	**14,468,118**	13,517,163	13,400,827
Depreciation - note 10	**4,352,248**	3,165,606	3,384,564
Retirement benefits expense - note 26	**1,669,470**	1,391,987	1,268,331
Interest income - notes 4, 5 and 23	**(7,692,887)**	(8,647,445)	(8,588,254)
Provision for (reversal of) expected credit losses - notes 5 and 23	**3,484,917**	(14,137,623)	(153,468)
Operating income before working capital changes	**43,957,361**	57,028,507	90,046,023
Decrease (increase) in:			
Trade and other receivables	**18,154,772**	(94,695,908)	(265,861,880)
Real estate inventories	**(24,170,299)**	1,496,787	43,253,795
Prepayments and other current assets	**8,487,129**	2,036,728	(1,333,853)
Increase (decrease) in:			
Accounts payable and other liabilities	**14,218,751**	7,553,397	12,983,218
Customers' deposit	**(2,857,926)**	(1,550,252)	5,712,763
Deferred gross profit	**(3,622,886)**	35,276,696	66,017,368
Retention payable and refundable bonds	**(785,251)**	802,729	(1,474,397)
Cash generated from (used in) operations	**53,381,651**	7,948,684	(50,656,963)
Contributions to retirement fund - note 26	**(1,500,000)**	–	–
Interest received	**2,115,228**	2,163,829	1,620,302
Income tax paid	**(18,039,694)**	(3,223,809)	(1,320,013)
Net cash provided by (used in) operating activities	**35,957,185**	6,888,704	(50,356,674)
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of advances to related parties - note 23	**663,368**	67,849,768	57,986,434
Additional advances to related parties - note 23	**(607,150)**	(567,044)	(40,422,054)
Additions to property and equipment - note 10	**(274,689)**	(3,535,345)	(1,916,194)
Acquisition of financial asset at FVOCI - note 8	–	–	(12,500,000)
Utilization of (additions to) other noncurrent assets	**16,086**	(492,607)	(18,741)
Net cash provided by (used in) investing activities	**(202,385)**	63,254,772	3,129,445

Forwarded

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows

	For the Years Ended December 31		
Continued	**2019**	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional advances from related parties - note 23	**16,560,446**	4,986,402	32,092,370
Settlement of advances from related parties - note 23	**(15,005,000)**	(58,359,096)	(7,350)
Proceeds from borrowings - note 13	**81,890,016**	78,989,229	85,942,157
Payment of borrowings - note 13	**(109,355,745)**	(77,094,189)	(52,975,125)
Payment of lease liabilities	**(908,728)**	–	–
Finance costs - notes 13 and 23	**(14,468,118)**	(13,517,163)	(13,400,827)
Net cash provided by (used in) financing activities	**(41,287,129)**	(64,994,817)	51,651,225
NET INCREASE (DECREASE) IN CASH	**(5,532,329)**	5,148,659	4,423,996
CASH - note 4			
At beginning of year	**18,536,645**	13,387,986	8,963,990
At end of year	**₱ 13,004,316**	₱ 18,536,645	₱ 13,387,986

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

1. CORPORATE INFORMATION

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

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

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

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

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

The accompanying consolidated financial statements as at and for the year ended December 31, 2019 including its comparatives for 2018 and 2019 were approved and authorized for issue by its Board of Directors (BOD) on June 11, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. 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 its 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 considers that 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 it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

Consolidation of subsdiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Parent Company gains control until the date when the Parent 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 subsidiary that do not result in the loss of control are accounted for as equity transactions.

If the Parent Company losses control over its subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss.

Composition of the Group

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

	Percentage of ownership	
	2019	2018
Mariano Arroyo Development Corporation	**100%**	100%

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2019.

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 Group adopted PFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on deficit as at January 1, 2019, without restatement of comparative figures.

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

The Group adopted PFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on deficit as at January 1, 2019, without restatement of comparative figures.

On initial application, the Group has elected to record right-of-use assets based on the corresponding lease liabilities. The Group elected to use the transition practical expedient to not reassess whether the contract is, or contains a lease as at January 1, 2019. Instead, the Group applied the standard only to contracts previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4 at the date of initial application. Right-of-use assets and lease liabilities of ₱4,115,836 (with accumulated amortization of ₱1,409,686) and ₱2,805,171 respectively were recorded as at January 1, 2019, with ₱99,021 effect in deficit. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate as at January 1, 2019. The weighted average rate applied is 9.09%.

Reconciliation of operating lease commitment under PAS 17 as at December 31, 2018 and lease liability as at January 1, 2019 under PFRS 16 is as follows:

Operating lease commitments as at December 31, 2018 under PAS 17	₱4,024,397
Less: Commitments relating to short-term lease and low value-leases	577,710
Operating lease commitments as at December 31, 2018 scoped-in under PFRS 16	3,446,687
Less: Amount of discount using single incremental borrowing rate as at January 1, 2019	(641,516)
Lease liabilities as at January 1, 2019	₱2,805,171

PFRS 16, Leases supersedes the following standards and interpretations PAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, SIC – 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

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

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

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

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

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

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

PAS 28 (Amendments), Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures. The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation. This addresses the concerns about how PFRS 9 classifies particular prepayable financial assets. The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition.

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

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

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

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

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2019

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

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

The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The amendments will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

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

The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The amendments will not have an impact on the disclosures and amounts recognized on the Group's consolidated financial statements.

PFRS 17, Insurance Contracts. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, including reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. The standard will not have an impact on the disclosures and amounts recognized on the Company's consolidated financial statements.

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

Deferred Effectivity

Philippine Interpretations Committee (PIC) updates on PFRS 15 implementation Issues. On August 27, 2019, the real estate industry sent a Position Paper to the PIC requesting the latter to revisit its position on certain issues relating to the adoption of PFRS 15 and some other industry issues. In line with this, the PIC issued two response letters to the Industry dated September 13 and 27, 2019. While the PIC finalizes its position on the matters raised by the Industry, PIC has provided the following options for accounting treatment or financial statement presentation on the following:

- Conclusion of PIC Q&A No. 2018-12D Step 3, *Determining the Transaction Price for the Contract*, temporarily allows the recording for the difference between the consideration received from the customers and the transferred goods or services to the customer as either contract asset, with disclosure required under PFRS 15 being complied, or as installment contracts receivables with disclosure requirements under PFRS 9 being followed. The Company retained its accounting policy of presenting the difference between the consideration received and transferred goods or services as contract asset with disclosure requirements under PFRS 15 being complied with.

- Conclusion of PIC Q&A No. 2018-12H, Accounting for Common Usage Service Area (CUSA), recommends the industry to consider an alternative presentation wherein CUSA may be presented outside of topline revenues if these are not considered as main source of revenue and are not material.

March 2019 IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Cost) for the Real Estate Industry. In March 2019, the IFRIC issued an Agenda Decision clarifying the criteria for the capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development which are sold to customers prior to the start of construction or completion of the development.

Paragraph 8 of PAS 23 allows the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Paragraph 5 of PAS 23 defines a qualifying asset as an asset that takes a substantial period of time to get ready for its intended use or sale. The IFRIC Agenda Decision clarified that the related assets namely, installment contracts receivable, contract asset or inventory, are not considered qualifying assets and therefore the corresponding borrowing cost may not be capitalized.

On February 11, 2020, the Philippine SEC issued Memorandum Circular No. 4, Series of 2020, providing relief to the real estate industry by deferring the mandatory implementation of the above IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, real estate companies shall adopt the IFRIC Agenda Decision and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. A real estate company may opt not to avail of the deferral and instead comply in full with the requirements of the IFRIC agenda decision.

For real estate companies that avail of the deferral, the SEC requires disclosure in the notes to the financial statements of the accounting policies applied, a discussion of the deferral of the subject implementation issues, and a qualitative discussion of the impact in the financial statements had the IFRIC agenda decision been adopted.

The Group opted to avail of the relief as provided by the SEC. Had the Group adopted the IFRIC agenda decision, borrowing costs capitalized to real estate inventories related to projects with preselling activities should have been expensed out in the period incurred. This adjustment should have been applied retrospectively and would have resulted to restatement of prior year financial statements. A restatement would have impacted interest expense, cost of real estate sales, provision for deferred income tax, real estate inventories, deferred tax liability and opening balance of deficit.

Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

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

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

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

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

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

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

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

Fair value measurement disclosures of financial and non-financial assets are presented in Note 34 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.

Financial Instruments

Initial Recognition, Measurement and Classification

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

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

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

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

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

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

Financial assets at amortized cost

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

As at December 31, 2019 and 2018, included under financial assets at amortized cost are the Group's cash, trade and other receivables, advances to related parties and other noncurrent assets (see Notes 4, 5, 11 and 23).

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

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

Other noncurrent assets consist of refundable deposits.

Equity instruments designated at FVOCI

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

As at December 31, 2019, and 2018 the Group elected to classify irrevocably its unquoted equity investments under this category (see Note 8).

Financial liabilities at amortized cost

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

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

As at December 31, 2019 and 2018, included in financial liabilities at amortized cost are the Group's accounts payable and other liabilities, borrowings, retention payable and refundable bonds, lease liabilities and advances from related parties (see Notes 12, 13, 15 23 and 28).

Accounts payable and other liabilities

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

Retention payable and refundable bonds

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

Lease liabilities

Lease liabilities represent the Group's 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 is effectively treated as a financial liability which is measured at amortized cost, using the rate of interest implicit in the lease as the effective interest rate.

Advances from related parties

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

Borrowings and Borrowing Cost

(a) Borrowings

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

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

(b) Borrowing cost

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

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

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

Offsetting of Financial Instruments

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

Derecognition of Financial Instruments

Financial assets

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

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

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

Financial liabilities

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

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

Impairment of Financial Assets

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

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

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

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

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

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

Significant increase in credit risk

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

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

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

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

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

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

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

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

Definition of default

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

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

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

Credit-impaired financial assets

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

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

Write-off policy

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

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

Real Estate Inventories

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

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

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

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

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

Prepayments and Other Current Assets

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are initially recognized at cost and subsequently measured at cost less any utilized portion and impairment loss.This account comprises prepaid items which are apportioned over the period covered by the payment and charged to the appropriate accounts in the Group's consolidated statements of comprehensive income when incurred. Prepayments that are expected to be realized within twelve (12) months after the reporting date are classified as current asset, otherwise, these are classified as other noncurrent asset. Prepayments are derecognized upon consumption and usage. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

Input Tax and Other Prepaid Taxes

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

The Group's input tax and other prepaid taxes are stated at cost less provision for impairment, if any. Allowance for unrecoverable input tax and other prepaid taxes, if any, are maintained by the Group at a level considered adequate to provide for potential uncollectible portion of the claims. The Group, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment losses.

Interest in Joint Operations

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

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

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

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

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

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

Property and Equipment

Property and equipment are tangible assets that are held for use in production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one (1) 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.

Right-of-use asset are asset that represents lessee's right to use an asset over the lease term.

The Group recognizes right-of-use asset at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is initially measured at cost which includes the amount of lease liability recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability.

Right-of-use asset is depreciated on a straight-line basis over the lease term of two years which is shorter than its estimated useful life.

When right-of-use are retired or otherwise disposed of, the cost and the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

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

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

	In Years
Building and improvements	25
Transportation equipment	5
Machinery, furniture and fixtures	3
Right-of-use assets	3-5

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. Equity instruments are measured (initial and subsequent) at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

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

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

Revenue Recognition

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

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

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

Real estate sales

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

Gain from sales of virtually completed residential lots and housing units, where sufficient down payment has been received and when collectability of the sales price is reasonably assured, is accounted for under the full accrual method. Otherwise, the installment method is used where gain from sales of the completed projects is initially deferred and classified under 'Deferred gross profit' in the Group's consolidated statements of financial position. Deferred gross profit is realized and transferred to the Group's 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 presented under the "Customers' deposits" account in the "Liabilities" section of Group's 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 work 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 consolidated financial statements. Deferred income tax is determined using tax rates and laws in the period the temporary difference are expected to be recovered or settled that have been enacted or substantively enacted as at reporting period.

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

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

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

Employee Benefits

Short-term employee benefits

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

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

Retirement benefits obligation

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

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

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

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

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

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

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

Leases

The Group is a party to operating lease as a lessee.

Leases under PAS 17 in 2018

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments 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, taxes, insurance, and others are expensed as incurred.

The Group is a party to operating lease as a lessee. Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated statement of comprehensive income.

Upon adoption of PFRS 16 in 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Right-of-use asset is presented under property and equipment account.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

Related Party Relationship and Transactions

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

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

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

Segment Reporting

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

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

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

Basic Earnings Per Share (EPS)

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

Provisions and Contingencies

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

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

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

Events After the Reporting Date

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, AND ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant Accounting Judgments in Applying the Group's Accounting Policies

Interest in Joint Operation and Real Estate Inventories

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

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

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

Leases

The Group has entered into contract of lease for its office spaces it occupies. In 2018, the Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. Thus, the leases were accounted for as operating leases. In 2019, upon adoption of PFRS 16, Leases, the Group determines the contract if there is a substance of lease. In determining the substance of the lease, the Group considered, among others, whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Based on management judgment, the Group's lease for its office spaces have substance of lease, thus, the Group recognized right-of-use assets representing the right to use the leased assets and lease liabilities representing its obligation to make lease payments.

Realizability of Input Value-Added Tax (VAT)

The Group reviews and assesses its input VAT for its recoverability. Factors which primarily affect the recoverability include the completeness of the supporting documentation and entitlement to claim VAT paid as input tax credit against output tax liabilities. The Group believes that the input VAT is fully realizable since this can be claimed as a tax credit against the output VAT on its vatable sales.

Operating Segments

The Group's operating business segment are organized and managed separately according to location of business activities. The Group classifies business segments based on location of its real property projects as in the different geographical areas. Management considers the performance in Metro Manila, Cebu, Iloilo and Davao as its operating business segment (see Note 27).

Impairment of Non-financial assets

Property and equipment, and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized whenever there is existing evidence that the carrying amount is not recoverable.

Management believes that there are no indications that the property and equipment, and investment property are impaired as at December 31, 2019 and 2018.

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, 2019 and 2018.

Significant Accounting Estimates and Assumptions

Revenue and Cost Recognition

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from sale of real estate inventories recognized based on percentage-of-completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. Realized gross profit amounted to ₱108,143,003, ₱125,583,129 and ₱158,198,762 for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 16).

Estimating allowance for ECL

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

The provision matrix is based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables, and advances to related parties are disclosed in Note 32.

The carrying amount of the Group's trade and other receivables, and advances to related parties amounted to ₱1,103,340,260 and ₱858,590,188 as at December 31, 2019 and 2018, respectively (see Notes 5 and 23).

Allowance for ECL recognized in the Group's consolidated statements of financial position amounted to ₱33,389,571 and ₱29,904,654 as at December 31, 2019 and 2018, respectively (see Notes 5 and 23).

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, 2019 and 2018 amounted to ₱41,583,149 and ₱42,954,558, respectively (see Note 10).

Deferred Tax Assets

The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The Group's deferred tax assets, net of unrecognized deferred tax asset, as at December 31, 2019 and 2018 amounted to ₱4,399,617 and ₱3,779,843, respectively (see Note 25).

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 26 to the Group's 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, 2019 and 2018 amounted to ₱10,027,135 and ₱7,785,795, respectively (see Note 26).

4. CASH

Cash as at December 31 consist of:

	2019	2018
Cash on hand	**₱ 108,446**	₱ 108,446
Cash in banks	**12,895,870**	18,428,199
	₱ 13,004,316	₱ 18,536,645

Cash in banks generally earn interest based on daily bank deposit rates ranging from 0.125% to 0.25% per annum in 2019 and 2018.

Interest income earned from cash in banks amounted to ₱16,109, ₱18,446 and ₱18,712 in 2019, 2018 and 2017, respectively, and is recognized as part of 'Other income' in the consolidated statements of comprehensive income (see Note 20).

There is no restriction on the Group's cash in banks as at December 31, 2019 and 2018.

5. TRADE AND OTHER RECEIVABLES (net)

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

	2019	2018
Current		
Installment contract receivables	**₱ 484,920,991**	₱ 535,560,064
Advances to homeowners	**12,784,097**	12,852,535
Advances to employees	**8,962,318**	7,272,729
Other receivables	**7,571,757**	4,894,804
	514,239,163	560,580,132
Allowance for ECL	**(5,241,419)**	(2,898,195)
	₱ 508,997,744	₱ 557,681,937
Noncurrent		
Installment contract receivables from:		
External customers	**₱ 31,057,191**	₱ 20,922,757
Related parties – note 23	**4,340,519**	4,340,519
Receivable from contractors	**6,355,166**	5,705,083
	41,752,876	30,968,359
	₱ 550,750,620	₱588,650,296

Movements in the allowance for ECL are as follows:

	2019	2018
Balance as at beginning of year	**₱2,898,195**	₱1,708,605
Provision during the year	**2,343,224**	1,189,590
Balance as at end of year	**₱5,241,419**	₱2,898,195

Installment contract receivables are collectible within a period of one (1) to nine (9) years, and are secured by mortgage on the property purchased by the buyer. These receivables bear interest at annual rates ranging from 18% to 21% in 2019 and 2018. Interest income earned amounted to ₱2,099,119, ₱2,145,384 and ₱1,601,590 in 2019, 2018 and 2017, respectively (see Note 20).

The Group partially finances its real estate projects through assignment of certain installment contract receivables to secure loans availed from local financial institutions. Assigned installment contract receivables as at December 31, 2019 and 2018 amounted to ₱50,991,225 and ₱79,789,444, 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 collected through salary deduction and/or liquidation within six (6) to twelve (12) months.

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, 2019 and 2018 are held as collateral for its liabilities.

6. REAL ESTATE INVENTORIES

Real estate inventories as at December 31 consist of:

	2019	2018
At cost:		
Projects under development	**₱ 221,888,545**	₱193,736,208
Raw land inventory	**175,781,327**	437,787,953
House and lot	**545,720**	20,791,132
	₱ 398,215,592	₱652,315,293

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

The cost of projects under development consists of cost of land, site preparation and development, and construction cost of real estate inventories.

The Group's real estate inventories consist of:

- Pacific Grand Villas in Cebu
- Pacific Grand Townhomes also in Cebu
- Chateaux Geneva and Costa Smeralda (Jaro Estates) in Iloilo
- Wellford Homes in Iloilo
- Wellford Homes in Malolos
- Metro Tech Industrial Park (formerly Plastic City Industrial Park) in Valenzuela

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

a) Chateaux Geneva

The Group 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.

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

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

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

The cost of inventories recognized as expense and included in 'Cost of Real Estate Sold' in the consolidated statements of comprehensive income amounted to ₱96,061,696, ₱130,621,844 and ₱146,684,748 for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 19).

Real estate inventories with a total cost of ₱13.46 million as at December 31, 2019 and 2018, 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, 2019 and 2018 are held as collateral for its liabilities.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	2019	2018
Creditable withholding tax	**₱ 7,937,546**	₱19,620,769
Deferred input tax	**4,833,068**	5,430,107
Input tax	**3,794,638**	214,931
Prepaid expenses	**782,461**	569,036
	₱17,374,713	₱25,834,843

Input tax was derived mainly from transactions related to the materials and services used in construction of houses sold and certain general and administrative expenses. Management believes that the input tax is fully realizable or recoverable because of the revenue to be generated from the vatable sales.

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

8. FINANCIAL ASSET AT FVOCI

The Group's financial asset at FVOCI consists of investment in unquoted shares of stock amounting to ₱12,500,000 represents ownership in Waterfront Manila Premier Development, Inc. This investment is irrevocably designated at FVOCI as the Group considers this investment to be strategic in nature and it holds this investment to foreseeable future.

The Group's financial assets at FVOCI as at December 31, 2019 and 2018 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, 2019 and 2018.

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

No direct operating expenses arose on the investment property for the years ended December 31, 2019, 2018 and 2017.

The Group's investment property as at December 31, 2019 and 2018 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, 2019 and 2018.

No valuation of independent appraiser was conducted for the investment property. The fair value of the land was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The fair value of investment property amounted to ₱240,240,000 as at December 31, 2019 and 2018.

There is no existence of restrictions on the realizability of the investment property as at December 31, 2019 and 2018.

The Group has not entered into any contractual commitments to purchase, construct or develop investment property as at December 31, 2019 and 2018.

10. PROPERTY AND EQUIPMENT (net)

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

December 31, 2019	**Building and improvements**	**Transportation equipment**	**Machinery, furniture and fixtures**	**Right-of-use Assets**	**Total**
Cost					
At beginning of year	**₱81,063,188**	**₱ 6,307,812**	**₱ 42,234,608**	**₱4,115,836**	**₱ 133,721,444**
Additions	**–**	**11,240**	**263,449**	**–**	**274,689**
At end of year	**81,063,188**	**6,319,052**	**42,498,057**	**4,115,836**	**133,996,133**
Accumulated depreciation					
At beginning of year	**₱40,466,614**	**₱ 5,237,395**	**₱ 40,947,041**	**1,409,686**	**₱ 88,060,736**
Depreciation – note 21	**2,260,588**	**441,771**	**696,050**	**953,839**	**4,352,248**
At end of year	**42,727,202**	**5,679,166**	**41,643,091**	**2,363,525**	**92,412,984**
Carrying amount as at December 31, 2019	**₱38,335,986**	**₱ 639,886**	**₱ 854,966**	**₱1,752,311**	**₱ 41,583,149**

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

Fully depreciated property and equipment still in use as at December 31, 2019 and 2018 amounted to ₱56,335,672 and ₱56,235,127, respectively.

The Group's transportation equipment with a carrying amount of ₱696,589 and ₱937,202 was held as collateral on its borrowings as at December 31, 2019 and 2018, respectively (see Note 13).

Aside from the foregoing, the Group's property and equipment as at December 31, 2019 and 2018 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, 2019 and 2018.

11. OTHER NONCURRENT ASSETS

Other noncurrent assets as at December 31 consist of:

	2019	2018
Refundable deposits	**₱6,531,617**	₱ 6,547,703
Other assets	**593,463**	593,463
	₱7,125,080	₱ 7,141,166

Refundable deposits consist mainly of security and utility deposits.

Other assets consist of Land in Davao and unused accounting system.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

	2019	2018
Accounts payable	**₱ 18,246,647**	₱ 16,553,545
Deferred output VAT and other taxes payable	**40,506,335**	34,774,856
Accrued expenses	**5,614,091**	5,678,412
Other payables	**23,229,069**	16,370,578
	₱ 87,596,142	₱ 73,377,391

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

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

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

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

13. BORROWINGS

Borrowings as at December 31 consist of:

	2019	2018
Current	**₱ 65,773,920**	₱ 85,552,116
Noncurrent	**19,957,846**	27,645,379
	₱ 85,731,766	₱ 113,197,495

The details of borrowings of the Group are as follows:

Bank/ Lender	Outstanding balance 2019	2018	Loan type and significant terms
Luzon Development Bank	**₱ 53,181,020**	₱ 61,303,291	Notes payable were obtained for working capital requirements. The notes carry interest rate of 10% to 11% p.a. and payable in six (6) years, with interest payable monthly in advance. The loan is secured by real estate inventories with a total cost of ₱13.46 million as at December 31, 2019 and 2018 (see Note 6).
Central Visayas Financial Corporation	**21,692,767**	33,148,788	Borrowings represent selling of installment contract receivables by virtue of various contracts to sell for a consideration of ₱34,030,202 and ₱73,736,536 as at December 31, 2019 and 2018, respectively (see Note 5).
Asia United Bank	**232,905**	601,339	Note payable amounting to ₱1,072,000 is secured by chattel mortgage with a total cost of ₱1,216,336 and carrying value amounting to ₱696,589 and ₱937,202 as at December 31, 2019 and 2018, respectively (see Note 10). The note carries interest rate of 10.25% and payable in 36 months.
Home Development Mutual Fund	**–**	12,104,826	Promissory note represents House Construction Financing Line payable within twelve (12) months from date of initial drawdown with maturity for subsequent drawdowns shall be the same date as that of initial drawdown. The note carries an interest rate of 6.125% p.a. and shall be paid quarterly.
Qwick	**10,625,074**	6,039,251	Borrowings represent selling of installment contract receivables by virtue of various contracts to sell for a consideration of ₱16,961,023 and ₱6,052,908 as at December 31, 2019 and 2018, respectively (see Note 6).
	₱ 85,731,766	₱ 113,197,495	

Total interest on borrowings charged as "Finance costs" in the consolidated statements of comprehensive income amounted to ₱14,213,128, ₱13,517,163 and ₱13,400,827 for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 22).

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

	2019	2018
Beginning balance	**₱ 113,197,495**	₱ 111,302,455
Additions	**81,890,016**	78,989,229
Payments	**(109,355,745)**	(77,094,189)
Ending balance	**₱ 85,731,766**	₱ 113,197,495

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

14. CUSTOMERS' DEPOSITS

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

As at December 31, 2019 and 2018, outstanding balance of the customers' deposits amounted to ₱2,901,678 and ₱5,759,604, respectively.

15. RETENTION PAYABLE AND REFUNDABLE BONDS

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

	2019	2018
Retention payable	**₱ 13,816,209**	₱ 14,727,927
Refundable bonds	**9,842,948**	9,716,481
	₱ 23,659,157	₱ 24,444,408

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

The refundable bond which is 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, 2019 and 2018, deferred gross profit amounted to ₱138,573,511 and ₱142,196,397, respectively. Realized gross profit for current and prior year sales amounted to ₱108,143,003, ₱125,583,129 and ₱158,198,762 in 2019, 2018 and 2017, respectively.

17. CAPITAL STOCK

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

	2019	2018
Common stock: ₱1 par value		
Authorized: 5,000,000,000 shares	**₱5,000,000,000**	₱5,000,000,000
Subscribed, issued and fully paid: 1,445,549,830 shares	**1,445,549,830**	1,445,549,830

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

Track Record of Registration of Securities

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

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

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

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

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

Number of shares owned by public totaled 759,980,740 shares or a public ownership of 52.57% as at December 31, 2019 and 2018, respectively.

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

	Market value per share
December 31, 2019	**₱ 0.430**
December 31, 2018	0.470
December 31, 2017	0.355

18. REAL ESTATE SALES

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

	2019	2018	2017
Lot	**₱ 10,927,300**	₱ 82,024,195	₱ 127,560,589
House and lot	**201,670,513**	224,888,210	243,401,178
	₱ 212,597,813	₱ 306,912,405	₱ 370,961,767

19. COST OF REAL ESTATE SOLD

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

	2019	2018	2017
Lot – note 6	**₱ 2,580,010**	₱ 26,896,892	₱ 37,837,238
House and lot – note 6	**93,481,686**	103,724,952	108,847,510
	₱ 96,061,696	₱130,621,844	₱146,684,748

20. OTHER INCOME

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

	2019	2018	2017
Finance income from:			
Advances to affiliates – note 23	**₱ 5,577,659**	₱ 6,483,615	₱ 6,967,952
Installment contract receivables – note 5	**2,099,119**	2,145,384	1,601,590
Cash in banks – note 4	**16,109**	18,446	18,712
Recovery of allowance for ECL	**–**	15,899,262	–
Provision for ECL – notes 5 and 23	**(3,484,917)**	(1,189,590)	–
Miscellaneous income	**3,376,916**	4,634,956	851,105
	₱ 7,584,886	₱ 27,420,024	₱ 9,439,359

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

21. OPERATING EXPENSES

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

	2019	2018	2017
Salaries and wages	**₱21,645,351**	₱20,910,118	₱19,751,395
Loss on cancelled contracts	**17,401,681**	27,905,574	₱2,248,713
Commissions	**11,559,372**	14,962,215	7,981,567
Taxes and licenses	**7,844,113**	9,959,127	3,221,498
Representation and entertainment	**5,820,047**	5,871,357	1,443,552
Depreciation - note 10	**4,352,248**	3,165,606	3,384,564
Advertising	**3,542,336**	3,641,279	5,028,241
Employee benefits	**2,839,756**	2,609,324	2,700,470
Professional and legal fees	**2,618,947**	1,700,621	2,370,538
Communication, light and water	**2,513,800**	2,634,792	2,757,379
Travel and transportation	**2,140,919**	1,787,698	10,787,176
Retirement benefits – note 26	**1,669,470**	1,391,987	1,268,331
Penalty fee, interests and surcharges	**1,224,160**	1,495,666	212,034
Supplies	**891,996**	1,106,188	1,625,888
Repairs and maintenance	**780,124**	954,502	1,924,984
Dues and subscription	**670,424**	680,806	698,747
Security services	**296,895**	264,664	426,067
Sports and recreation	**208,872**	254,137	1,858,918
Insurance	**160,430**	139,638	80,278
Director fees	**160,000**	150,000	220,000
Rental – note 28	**92,423**	849,346	717,703
Meetings, trainings and seminars	**61,467**	108,162	40,609
Janitorial services	**17,061**	119,592	224,943
Miscellaneous	**2,474,065**	2,990,346	4,778,389
	₱ 90,985,957	₱105,652,745	₱105,751,984

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

22. FINANCE COSTS

Details of finance costs for the years ended December 31 is as follows:

	2019	2018	2017
Borrowings – note 13	**₱ 14,213,128**	₱ 13,517,163	₱ 13,400,827
Lease liabilities – note 28	**254,990**	–	–
	₱ 14,468,118	₱ 13,517,163	₱ 13,400,827

23. 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, 2019 and 2018 are as follows:

December 31, 2019	At beginning of Year	Additional advances/ Impairment	Accrual of interest – note 20	Collection/ application/ reversal of impairment	At end of year
Common key management					
Plastic City Corp. *(a)*	**₱185,555,706**	**₱ –**	**₱3,627,609**	**₱ –**	**₱189,183,315**
Forum Holdings Corp. *(b)*	**36,911,382**	**–**	**709,324**	**–**	**37,620,706**
Kennex Container Corp. *(b)*	**34,488,803**	**–**	**662,251**	**–**	**35,151,054**
Orient Pacific Corp. *(b)*	**33,183,063**	**–**	**472,379**	**–**	**33,655,442**
Noble Arch Realty and Construction *(c)*	**4,657,425**	**21,082**	**81,612**	**–**	**4,760,119**
Pacific Rehouse Corporation *(f)*	**587,064**	**586,068**	**–**	**(303,368)**	**869,764**
Metro Alliance Holdings and Equities Corporation *(e)*	**–**	**278,270,000**	**–**	**–**	**278,270,000**
Stockholders					
International Polymer Corp. *(b)(d)*	**1,562,908**	**–**	**24,484**	**(360,000)**	**1,227,392**
	296,946,351	**278,877,150**	**5,577,659**	**(663,368)**	**580,737,792**
Allowance for ECL	**(27,006,459)**	**(1,141,693)**	**–**	**–**	**(28,148,152)**
	₱269,939,892	**₱277,735,457**	**₱5,577,659**	**(₱663,368)**	**₱552,589,640**

December 31, 2018	At beginning of Year	**Additional advances/ Impairment**	**Accrual of interest**	Collection/ application/ reversal of impairment	At end of year
Common key management					
Plastic City Corp. *(a)*	₱ 183,932,797	₱ 500,000	₱ 3,675,235	(₱2,552,326)	₱ 185,555,706
Forum Holdings Corp. *(b)*	75,602,659	–	1,445,159	(40,136,436)	36,911,382
Kennex Container Corp. *(b)*	33,812,552	700,000	676,251	(700,000)	34,488,803
Orient Pacific Corp. *(b)*	32,710,684	–	472,379	–	33,183,063
Heritage Pacific Corp. *(b)*	19,767,564	–	–	(19,767,564)	–
Noble Arch Realty and Construction *(c)*	4,396,408	447,961	87,092	(274,036)	4,657,425
Pacific Rehouse Corporation	–	587,064	–	–	587,064
Stockholders					
International Polymer Corp.*(b)(d)*	6,755,831	1,057,250	127,499	(6,377,672)	1,562,908
	356,978,495	3,292,275	6,483,615	(69,808,034)	296,946,351
Allowance for ECL	(42,333,672)	–	–	(15,898,059)	(27,006,459)
	₱314,644,823	₱3,292,275	₱6,483,615	(₱85,706,093)	₱269,939,892

Details of the Group's advances from related parties as at December 31, 2019 and 2018 are as follows:

December 31, 2019	**At beginning of Year**	**Additional Advances from Related Parties**	**Settlement/ Reversal**	**At end of year**
Common key management				
Waterfront Cebu City Hotel	**₱ 92,054,457**	**₱ –**	**₱ –**	**₱ 92,054,457**
Pacific Rehouse Corp.		**5,000**	**(5,000)**	**–**
Concept Moulding Corp.	**3,830,646**	**–**	**–**	**3,830,646**
Manila Pavilion	**166,530**	**–**	**–**	**166,530**
The Wellex Group, Inc.	**6,416,954**	**16,555,446**	**(15,000,000)**	**7,972,340**
	₱102,468,587	**₱ 16,560,445**	**(₱15,005,000)**	**₱104,024,033**

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

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

a) Plastic City Corporation (PCC)

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

On May 2, 2011, PCC and the Group re-entered into a memorandum of agreement wherein PCC will transfer the ownership of the said properties as payment to its outstanding obligation to the Group. On December 21, 2018, PCC and Group reissue a promissory note indicating an extension of term for another three (3) years, starting January 31, 2018 and will mature on January 31, 2021. As at December 31, 2019 and 2018, the outstanding advances to PCC has not been settled, the transfer of property from PNB to PCC is still pending.

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

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

c) Noble Arch Realty and Construction Corporation (NARCC)

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

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

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

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

d) Installment contract receivables from IPC

In addition to the advances made to related parties, the Group also has unsecured and unguaranteed installment contract receivables from IPC due beyond one (1) year which are to be settled through cash amounting to ₱4,340,519 as at December 31, 2019 and 2018 (see Note 5).

e) Metro Alliance Holdings and Equities Corporation (MAHEC)

The Group has outstanding advances to MAHEC pertaining to the value of real estate inventories transferred by the Group. These advances are unsecured, with no definite terms of repayment and with no guarantee. The advances are to be collected through cash.

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 Group. The total remuneration of these personnel is as follows:

	2019	2018	2017
Short-term employee benefits	**₱ 3,672,000**	₱ 3,817,138	₱ 4,779,020
Post-employment benefits	**306,000**	318,095	396,577
Share-based payments	–	–	–
Other long-term benefits	–	–	–
	₱ 3,978,000	₱ 4,135,233	₱ 5,175,597

g) Transaction with the retirement fund

The Group has no transactions with its retirement plan other than its benefits paid and contributions to the fund in 2019.

24. 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), Pacific Plastic Corporation (PPC), 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.

On November 29, 2019, the Landowners and ALC had agreed to irrevocably cancel, rescind, and terminate the MOA, and that both parties are absolutely release from their respective rights, obligations, undertakings, and claims (if any) arising from, in connection with, or incidental to the said agreements.

The Landowners paid ALC reimbursement of diligence costs and interest of down payment from December 17, 2012 to date of rescission amounting to ₱15,047,791. The Group's share in additional cost amounted to ₱1,555,446.

25. INCOME TAX

Reconciliation of Income Tax Expense

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

	2019	2018	2017
Income before tax	**₱ 10,273,814**	₱ 33,833,245	₱ 48,485,310
Income tax computed at 30%	**3,082,144**	10,149,974	14,545,593
Tax effect of:			
Nondeductible expenses	**7,085,842**	9,936,890	13,564,419
Expired MCIT	**–**	–	1,080,975
Expired NOLCO	**5,464**	5,374	5,316
Interest income subjected to final tax	**(4,833)**	(5,534)	(5,614)
Change in unrecognized deferred tax asset	**1,045,557**	(3,498,591)	542
	₱ 11,241,174	₱ 16,588,473	₱ 29,191,231

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

	2019	2018
Deferred tax assets		
Allowance for ECL	**₱ 10,016,872**	₱8,971,397
Retirement benefits obligation	**3,830,684**	3,779,843
Lease liabilities	**568,933**	–
NOLCO	**17,154**	17,072
	14,433,643	12,768,312
Less: Unrecognized deferred tax asset	**(10,034,026)**	(8,988,469)
	₱ 4,399,617	₱ 3,779,843
Deferred tax liabilities		
Excess of financial realized gross profit over taxable realized gross profit	**₱ 57,554,428**	₱ 64,258,867
Remeasurement gain on retirement benefits	**822,544**	1,444,105
Right-of-use assets (net)	**525,693**	–
	₱ 58,902,665	₱ 65,702,972

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

The component of deferred income tax recognized in other comprehensive income from actuarial gain (loss) on retirement benefits amounted to (₱621,561), (₱116,495) and ₱156,449 for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 26).

As at December 31, 2019, the Group's NOLCO that can be claimed as deduction from future taxable income follows:

Year Incurred	Expiration Date	2018	Additions	Expired	Claimed	2019
2019	2022	₱ –	₱ 18,488	₱ –	₱ –	₱ 18,488
2018	2021	19,163	–	–	–	19,163
2017	2020	19,528	–	–	–	19,528
2016	2019	18,214	–	(18,214)	–	–
		₱56,905	₱ 18,488	(₱ 18,214)	₱ –	₱ 57,179

26. 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, 2019.

The movement in the retirement benefits obligation for the years ended December 31, 2019 and 2018 is as follows:

The movement in the retirement benefits obligation for the years ended December 31, 2019 and 2018 is as follows:

	Present value of retirement benefits obligation	**Fair value of plan assets**	**Net retirement benefits obligation**
January 1, 2019	**₱ 8,428,358**	**(₱ 642,563)**	**₱ 7,785,795**
Retirement expense:			
Current service costs	**1,086,386**	**–**	**1,086,386**
Interest expense (income)	**633,813**	**(50,729)**	**583,084**
	1,720,199	**(50,729)**	**1,669,470**
Benefits paid	**(1,435,942)**	**1,435,942**	**–**
Contribution to the fund	**–**	**(1,500,000)**	**(1,500,000)**
Remeasurements, gross of tax:			
Actuarial loss (gain) arising from:			
Changes in financial assumptions	**1,936,660**	**–**	**1,936,660**
Experience/return	**86,757**	**48,453**	**135,210**
	2,023,417	**48,453**	**2,071,870**
As at December 31, 2019	**₱ 10,736,032**	**(₱ 708,897)**	**₱ 10,027,135**

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

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

	2019	2018
Balance at beginning of year	**₱ 3,369,577**	₱ 3,641,398
Amounts recognized in OCI	**(2,071,870)**	(388,315)
	1,297,707	3,253,083
Attributable tax	**621,561**	116,494
Balance at end of year	**₱ 1,919,268**	₱ 3,369,577

Recognized remeasurement gain (loss), net of income (benefit from) tax expense amounted to (₱621,561), (₱116,495) and ₱156,449 (see Note 25), and in the consolidated statements of comprehensive income for the years ended December 31, 2019, 2018 and 2017 amounted to (₱1,450,309), (₱271,821) and ₱365,048, respectively.

The total retirement benefits expense recognized is included in operating expenses for the years ended December 31, 2019, 2018 and 2017 amounted to ₱1,669,470, ₱1,391,987 and ₱1,268,331, respectively (see Note 21).

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

	2019	2018
Cash and cash equivalents	**₱ 658,069**	₱ 7,982
Government bonds and securities	**50,828**	634,581
	₱ 708,897	₱ 642,563

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, 2019 and 2018.

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

	2019	2018
Interest income	**₱ 50,729**	₱ 42,004
Gain (loss) on plan assets, excluding amounts included in net interest cost	**48,453**	(49,899)
	₱ 2,276	(₱ 7,895)

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

	2019	2018
Discount rate	**5.19%**	7.52%
Salary rate increase	**5.00%**	5.00%

The discount rate at December 31, 2019 and 2018 was based on the BVAL 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:

December 31, 2019	**Impact on retirement benefits obligations**		
	Change in assumptions	**Increase in assumptions**	**Decrease in assumptions**
Discount rate	**100 bps**	**Decrease by 10.4%**	**Decrease by 8.6%**
Salary increase rate	**100 bps**	**Increase by 10.3%**	**Decrease by 8.7%**

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

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 consolidated statements of financial position.

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

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

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

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

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

The weighted average duration of the defined benefit obligation is years in 2019 and 7.9 years in 2018.

The Group does not expect any contributions to post-employment benefit plans for the years ended December 31, 2019 and 2018, respectively.

Expected maturity analysis of undiscounted retirement benefits obligation:

2019	**Less than a year**	**Between 1-2 years**	**Between 2-5 years**	**Over 5 years**	**Total**
Retirement benefits obligation	**₱ –**	**₱2,343,072**	**₱3,223,345**	**₱6,344,387**	**₱11,910,804**

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

27. BUSINESS SEGMENT INFORMATION

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

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

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

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

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

The segment information is as follows:

December 31, 2019	Metro Manila	Cebu	Iloilo	Davao	Total
Revenue					
Realized gross profit	₱ 9,524,458	₱44,007,573	₱ 54,610,972	₱ –	₱108,143,003
Other income	3,943,337	1,323,684	2,023,222	294,643	7,584,886
	13,467,795	45,331,257	56,634,194	294,643	115,727,889
Expenses					
Depreciation	3,404,458	342,448	605,342	–	4,352,248
Loss on cancelled contracts	–	15,003,413	2,398,268	–	17,401,681
Other expenses	38,494,581	15,627,499	13,262,855	177,623	67,562,558
	41,899,039	30,973,360	16,266,465	177,623	89,316,487
Segment income (loss)	(28,431,245)	14,357,897	40,367,729	117,020	26,411,401
Finance cost	14,333,887	50,361	83,870	–	14,468,118
Retirement benefits expense	1,669,470	–	–	–	1,669,470
Provision for income tax	11,241,174	–	–	–	11,241,174
Net income (loss) for the year	(₱ 55,675,775)	₱14,307,536	₱40,283,859	₱117,020	(₱ 967,360)
Segment assets	₱931,461,026	₱374,445,467	₱287,736,620	₱545,012	₱1,594,188,125
Deferred tax assets (net)	4,399,617	–	–	–	4,399,617
Total assets	₱935,860,643	₱374,445,467	₱ 287,736,620	₱545,012	₱1,598,587,742
Segment liabilities	₱ 169,703,988	₱ 139,140,543	₱ 108,200,721	₱508,377	₱ 417,553,629
Borrowings	85,495,740	–	236,026	–	85,731,766
Retirement benefits obligation	10,027,135	–	–	–	10,027,135
Total liabilities	₱ 265,226,863	₱ 139,140,543	₱ 108,436,747	₱ 508,377	₱ 513,312,530

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

Although Davao segment does not meet the quantitative thresholds required by PFRS 8 for reportable segments as at December 31, 2019 and 2018, 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.

28. 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
Grand Union Supermarket	September 01, 2018 to September 01, 2023
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

During the year, the Group adopted PFRS 16 for the first time. The Group recognized the assets as 'right-of-use assets' and corresponding lease liabilities.

The present value of the lease liabilities as at December 31, 2019 is as follows:

Current	₱ 686,947
Noncurrent	1,209,496
	₱ 1,896,443

The future minimum lease payments as at December 31, 2019 are as follows:

Not later than one year	₱ 859,334
Later than one year but not later than five years	1,423,635
Later than five years	–
Future minimum lease payments	2,282,969
Amounts representing finance charges	(386,526)
	₱ 1,896,443

The net carrying amount of the right-of-use assets recognized as at December 31, 2019 is disclosed in Note 10.

Total finance costs charged to operations for the year ended December 31, 2019 amounted to ₱254,990 (see Note 22).

The Group has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for the lease of printers as these are for short-term leases and of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term. Total rental expense for the lease of printers amounted to ₱92,423, ₱849,346 and ₱717,703, for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 21).

29. CONTINGENCIES

a) Claims from expropriated property in Chateaux Geneva

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

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

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

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

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

On February 23, 2018, PRC and the Group through counsel filed a Motion for Reconsideration on the said decision. On January 28, 2019, the Supreme Court issued an Entry of Judgment declaring the case as closed and terminated. The Republic of the Philippines filed a Petition for Certiorari before the Supreme Court. On June 11, 2019, the Group and PRC filed their comment. The Group and PRC filed their Motion for Early Resolution on September 20, 2019. As to date, the Supreme Court has yet to act on the Motion.

b) Other lawsuits and claims

The Group 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 Group.

30. EARNINGS (LOSS) PER SHARE

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

	2019	2018	2017
Net income (loss)	**(₱ 967,360)**	₱ 17,244,772	₱ 19,294,079
Weighted average number of common shares outstanding during the year	**1,445,549,830**	1,445,549,830	1,445,549,830
Earnings (loss) per share	**(₱ 0.001)**	₱ 0.012	₱ 0.013

31. SUBSEQUENT EVENTS

Impact of COVID-19

In a move to contain the COVID-19 pandemic, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020. Enhanced community quarantine was likewise imposed in provinces outside the island of Luzon as imposed by their respective local government unit. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve. On May 16, 2020, the Enhanced Community Quarantine was downgraded to Modified Enhanced Community Quarantine in Metro Manila and to General Community Quarantine in most provinces which was further extended to May 31, 2020.

Though the disruption is currently expected to be temporary, the Group anticipates that these will have an adverse impact on economic and market conditions and affect its business. COVID-19 imposes an impact on sales due to the potential decline in confidence of buyers to commit to large purchases such as land and/ or house and lot as well as a possible decline in sales to Overseas Filipinos in countries that are hard-hit by the pandemic.

The Group considers the measure taken by the government as a non-adjusting subsequent event, which does not impact its financial position and performance as at and for the year ended December 31, 2019. However, it could have a material impact on its 2020 financial results and even years thereafter. Considering the evolving nature of this pandemic, the Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group will continue to monitor the situation.

32. FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

Credit risk

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

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

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

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

Category	**Description**	**Basis for recognizing ECL**	**Base**	**Minimum allowance for credit losses**	**Stage**
Performing	The counterparty has a low risk of default and does not have any past due amounts	12-month ECL	0%	0%	1
Doubtful	Amount is 1-30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired	25%	1%	2
	Amount is 31-90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	5%	2
	Amount is 91-180 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	10%	2
	Amount is 181-360 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	25%	25%	2
In default	Amount is over 1 year to 2 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	50%	25%	3

	Amount is over 2 year to 3 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	100%	25%	3
	Amount is over 3 year to 5 years past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	100%	50%	3
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	100%	100%	3

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

		December 31, 2019			
		Basis of recognizing ECL	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Cash in banks – note 4	(a)		**₱ 12,895,870**	**₱ –**	**₱ 12,895,870**
Trade and other receivables – note 5	(b)	Lifetime ECL	**555,992,039**	**(5,241,419)**	**550,750,620**
Advances to related parties – note 23	(c)	Lifetime ECL	**580,737,792**	**(28,148,152)**	**552,589,640**
Refundable deposits classified as "Other noncurrent assets"	(d)		**6,531,617**	**–**	**6,531,617**
Total			**₱1,156,157,318**	**(₱33,389,571)**	**₱1,122,767,747**

		December 31, 2018			
		Basis of recognizing ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash in banks– note 4	(a)		₱ 18,428,199	₱ –	₱ 18,428,199
Trade and other receivables – note 5	(b)	Lifetime ECL	591,548,491	(2,898,195)	588,650,296
Advances to related parties – note 23	(c)	Lifetime ECL	296,946,351	(27,006,459)	269,939,892
Refundable deposits classified as "Other noncurrent assets"	(d)		6,547,703	–	6,547,703
Total			₱ 913,470,744	(₱29,904,654)	₱ 883,566,090

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

(a) Cash in banks

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

(b) Trade and other receivables

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

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

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

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

(c) Advances to Related Parties

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

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

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

(d) Refundable deposits

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

On that basis, the loss allowance as at December 31, 2019 and 2018 was determined based on months past due, as follows for advances to related parties:

December 31, 2019	**ECL rate**	**Cash in banks**	**Trade and other receivables**	**Advances to related parties**	**Refundable deposits**	**Total**	**ECL**
Performing	0%	**₱12,895,870**	**₱ 536,274,282**	**₱545,739,483**	**₱6,531,617**	**₱1,101,441,252**	**₱ –**
Doubtful		–	–	–	–	–	–
1-30 days	0.25%	–	–	–	–	–	–
31-90 days	1.25%	–	–	–	–	–	–
91-180 days	2.50%	–	–	–	–	–	–
181-360 days	6.25%	–	**650,082**	–	–	**650,082**	**40,630**
In default							
1-2 years	12.50%	–	–	–	–	–	–
2-3 years	25.00%	–	**18,489,181**	**9,133,542**	–	**27,622,723**	**6,905,680**
3-5 years	50.00%	–	–	–	–	–	–
Write-off	100%	–	**578,494**	**25,864,767**	–	**26,443,261**	**26,443,261**
		₱12,895,870	**₱555,992,039**	**₱580,737,792**	**₱6,531,617**	**₱1,156,157,318**	**₱33,389,571**

December 31, 2018	ECL rate	Cash in banks	Trade and other receivables	Advances to related parties	Refundable deposits	Total	ECL
Performing	0%	₱18,428,199	₱ 572,412,378	₱261,948,043	₱6,547,703	₱859,336,323	₱ –
Doubtful		–	–	–	–	–	–
1-30 days	0.25%	–	–	–	–	–	–
31-90 days	1.25%	–	–	–	–	–	–
91-180 days	2.50%	–	–	–	–	–	–
181-360 days	6.25%	–	–	–	–	–	–
In default							
1-2 years	12.50%	–	18,557,619	9,133,542	–	27,691,161	3,461,394
2-3 years	25.00%	–	–	–	–	–	–
3-5 years	50.00%	–	–	–	–	–	–
Write-off	100%	–	578,494	25,864,766	–	26,443,260	26,443,260
		₱18,428,199	₱591,548,491	₱296,946,351	₱6,547,703	₱913,470,744	₱29,904,654

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 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, 2019 and 2018, the Group's financial liabilities have contractual maturities (with accounts payable and other liabilities excludes deferred output VAT and other taxes payable) which are presented below:

		Maturing in		
December 31, 2019	**On Demand**	**Within 1 year**	**1 to 5 Years**	**Total**
Accounts payable and other liabilities	**₱47,089,807**	**₱ –**	**₱ –**	**₱ 47,089,807**
Borrowings	–	**65,773,920**	**19,957,846**	**85,731,766**
Lease liabilities	–	**686,947**	**1,209,496**	**1,896,443**
Advances from related parties	–	–	**104,024,033**	**104,024,033**
Retention payable and guarantee bonds	–	–	**23,659,157**	**23,659,157**
	₱47,089,807	**₱66,460,867**	**₱148,850,532**	**₱262,401,206**

		Maturing in		
December 31, 2018	On Demand	Within 1 year	1 to 5 Years	Total
Accounts payable and other liabilities	₱38,602,535	₱ –	₱ –	₱ 38,602,535
Borrowings	–	85,552,116	27,645,379	113,197,495
Advances from related parties	–	–	102,468,587	102,468,587
Retention payable and guarantee bonds	–	–	24,444,408	24,444,408
	₱38,602,535	₱85,552,116	₱154,558,374	₱278,713,025

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, equity price risk and other price risk such as equity risk. The Group's market risk is manageable within conservative bounds. As at December 31, 2019 and 2018, the Group has unquoted shares of stock classified as FVOCI. The cost of the financial asset at FVOCI approximates its fair value.

Equity price risk

Equity price risk is the risk that the fair value of equity instrument decreases as a result of changes in the value of individual stocks. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. The Group's financial asset at FVOCI has no significant price risk since it has no quoted price in an active market.

Equity instruments designated at FVOCI in listed and non-listed companies are held for strategic rather than trading purposes. The Group does not actively trade these investments.

If the price of financial asset at FVOCI had been 10% higher/lower, other comprehensive income (loss) for the years ended December 31, 2019 and 2018 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 installment 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. As at December 31, 2019 and 2018, the Group is exposed to market interest rates through its borrowings and cash, installment contract receivables, and advances to related parties which are subject to fixed interest rates.

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

December 31, 2019	**Interest Rate**	**Interest Terms**	**Within 1 year**	**Within 1 to 7 years**	**Total**
Financial assets					
Cash in banks	**0.125% to 0.25%**	**Fixed at the date of investment**	**₱12,895,870**	**₱ –**	**₱12,895,870**
Installment contract receivables, gross	**18%**	**Fixed at the date of sale**	**484,920,991**	**35,397,710**	**520,318,701**
Advances to related parties, gross	**2%**	**Fixed based on PN renewed in 2018 -note 23**	**–**	**580,737,792**	**580,737,792**
			₱497,816,861	**₱616,135,502**	**₱1,113,952,363**
Financial liability					
Borrowings (excluding non-interest bearing borrowings)	**10%**	**Fixed based on PN issuance**	**₱ 65,773,920**	**₱ 19,957,846**	**₱ 85,731,766**

December 31, 2018	Interest Rate	Interest Terms	Within 1 year	Within 1 to 7 years	Total
Financial assets					
Cash in banks	0.125% to 0.25%	Fixed at the date of investment	₱18,428,199	₱ –	₱18,428,199
Installment contract receivables, gross	18%	Fixed at the date of sale	535,560,064	25,263,276	560,823,340
Advances to related parties, gross	2%	Fixed based on PN issued in 2014 - note 23	–	296,946,351	296,946,351
			₱553,988,263	₱322,209,627	₱876,197,890

Financial liabilities					
Borrowings (excluding non-interest bearing borrowings)	10%	Fixed based on PN issuance	₱ 85,552,116	₱ 27,645,379	₱113,197,495

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:

2019			2018		
Change in interest rate	**Effect on income before tax**	**Effect on equity**	Change in interest rate	Effect on income before tax	Effect on equity
+0.5%	**₱5,141,103**	**₱3,598,772**	+0.5%	₱3,815,002	₱2,670,501
-0.5%	**(₱5,141,103)**	**(₱3,598,772)**	-0.5%	(₱3,815,002)	(₱2,670,501)

33. 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 Group's consolidated statements of financial position amounting to ₱1,085,275,213 and ₱1,087,791,903 as at December 31, 2019 and 2018, respectively.

The Group's goal in capital management is to maintain a minimum debt-to-equity structure ratio of 0.40:1 to 0.50:1 on a monthly basis as follows:

	2019	2018
Total liabilities	**₱ 513,312,530**	₱ 534,932,649
Total equity	**1,085,275,213**	1,087,791,903
	0.47:1	0.49:1

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group is not subject to any externally imposed capital requirements.

34. 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, 2019	**Carrying value**	**Fair value**	**Fair value hierarchy**	**Valuation technique**
Installment contracts receivables	**₱ 520,318,701**	**₱ 519,149,788**	**Level 2**	**(a)**
Refundable deposits	**6,531,617**	**6,315,928**	**Level 2**	**(b)**
Receivable from contractors	**6,355,166**	**5,677,516**	**Level 2**	**(b)**
Investment property	**1,072,016**	**240,240,000**	**Level 2**	**(e)**
Advances to related parties	**552,589,640**	**531,131,911**	**Level 2**	**(c)**
	₱1,177,853,097	**₱1,302,515,143**		
Financial liabilities at amortized cost				
Advances from related parties	**₱ 104,024,033**	**₱ 101,984,345**	**Level 2**	**(c)**
Borrowings	**85,781,766**	**84,334,893**	**Level 2**	**(d)**
Retention payable and guarantee bonds	**23,659,157**	**21,136,385**	**Level 2**	**(b)**
Lease liabilities	**1,896,443**	**1,707,951**	**Level 2**	**(d)**
	₱ 215,311,399	**₱ 209,163,574**		

December 31, 2018	Carrying value	Fair value	Fair value hierarchy	Valuation technique
Installment contract receivables	₱ 560,244,846	₱ 558,640,089	Level 2	(a)
Refundable deposits	6,547,703	4,992,225	Level 2	(b)
Receivable from contractors	5,705,083	4,350,328	Level 2	(b)
Investment property	1,072,016	240,240,000	Level 2	(e)
Advances to related parties	269,939,892	254,370,389	Level 2	(c)
	₱843,509,540	₱1,062,593,031		
Financial liabilities at amortized cost				
Advances from related parties	₱ 102,468,587	₱ 100,459,399	Level 2	(c)
Borrowings	113,197,495	109,750,648	Level 2	(d)
Retention payable and guarantee bonds	24,444,408	18,637,372	Level 2	(b)
	₱ 240,110,490	₱ 228,847,419		

The fair values of cash, financial asset at FVOCI, and accounts payable and other liabilities approximate their carrying amounts as at reporting dates.

Financial asset at FVOCI amounting to ₱12,500,000 as at December 31, 2019 and 2018 is carried at cost less impairment loss since there was no reliable basis for the measurement of the fair value.

Fair value estimation

(a) The fair value of installment contracts receivable included under trade and other receivables are based on the discounted value of future cash using the discount rates of 3.14% and 6.78% as at December 31, 2019 and 2018, respectively.

(b) The fair value of receivable from contractors, refundable bonds, and retention payable and guarantee bonds is determined based on discounted value using the applicable rate of 3.14 to 3.83% in 2019 and 7.016% in 2018.

(c) The fair value of advances to related parties and advances from related parties is determined based on discounted value using the applicable rate of 2% in 2019 and 2018.

(d) The fair value of interest bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable interest rates for similar types of loans. Discount rates used range from 3.74% to 8.84% in 2019 and 6.783% to 7.037% in 2018.

(e) The fair value was determined by reference to zonal values of real properties located in each zone or area upon consultation with competent appraisers both public and private sector.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation about the changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes are as follows:

	Balance as at January 1, 2019	**Changes from financing cash flows**	**Balance as at December 31, 2019**
Borrowings	**₱ 113,197,495**	**(₱27,465,729)**	**₱ 85,731,766**
Advances from related parties	**102,468,587**	**1,555,446**	**104,024,033**
Lease liabilities	**2,805,171**	**(908,728)**	**1,896,443**
	₱ 218,471,253	**(₱26,819,012)**	**₱ 191,652,242**

	Balance as at January 1, 2018	Changes from financing cash flows	Balance as at December 31, 2018
Borrowings	₱ 111,302,455	₱ 1,895,040	₱113,197,495
Advances from related parties	155,841,281	(53,372,694)	102,468,587
	₱ 267,143,736	(₱51,477,654)	₱215,666,082

* * *

DMD Diaz Murillo Dalupan and Company

HLB WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Independent Auditors' Report on
Components of Financial Soundness Indicators

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of **Philippine Estates Corporation and Subsidiary** (the 'Group') as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 11, 2020. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the consolidated financial statements as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

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

By:

Richard Noel M. Ponce
Partner
CPA Certificate No. 120457
SEC Accreditation No. 1738-A, Group A, effective until January 30, 2022
Tax Identification No. 257-600-228
PTR No. 8147698, January 18, 2020, Makati City
BIR Accreditation No. 08-001911-012-2019, effective until September 29, 2022

June 11, 2020

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO REVISED SRC RULE 68
DECEMBER 31, 2019

Ratio	Formula	2019	2018
Profitability ratios:			
Return on assets	Net income	₱ –	₱ 17,244,772
	Divided by: Total assets	–	1,622,724,552
	Return on assets	NA	0.01:1
Return on equity	Net income	₱ –	₱ 17,244,772
	Divided by: Total equity	–	1,087,791,903
	Return on equity	NA	0.02:1
Net profit margin	Net income	₱ –	₱ 17,244,772
	Divided by: Total revenue	–	306,912,405
	Net profit margin	NA	0.06:1
Gross profit margin	Total revenue	₱ 212,597,813	₱ 306,912,405
	Less: Cost of real estate sold	96,061,696	130,621,844
	Gross profit	116,536,117	176,290,561
	Divided by: Total revenue	212,597,813	306,912,405
	Gross profit margin	54.82%	57.44%
Solvency and liquidity ratios:			
Current ratio	Current assets	₱ 937,565,365	₱ 1,254,368,718
	Divided by: Current liabilities	295,532,198	306,885,508
	Current ratio	3.17:1	4.09:1
Debt to equity ratio	Total liabilities	₱ 513,312,530	₱ 534,932,649
	Divided by: Total shareholder's equity	1,085,275,213	1,087,791,903
	Debt to equity ratio	0.47:1	0.49:1
Quick ratio	Quick assets*	₱ 522,002,060	₱ 576,218,582
	Divided by: Current liabilities	295,532,198	306,885,508
	Quick ratio	1.77:1	1.88:1
Cashflow liquidity ratio	Cashflow from operations	₱ 35,957,185	₱ 6,888,704
	Divided by: Current liabilities	295,532,198	306,885,508
	Cashflow liquidity ratio	12.17%	2.24%

Financial leverage ratio Asset to equity ratio	Total assets Divided by: Total shareholder's equity	**₱ 1,598,587,743** **1,085,275,213**	₱ 1,622,724,552 1,087,791,903
	Asset to equity ratio	**1.47:1**	1.49:1
Debt to asset ratio	Total liabilities Divided by: Total assets	**₱ 513,312,530** **1,598,587,743**	₱ 534,932,649 1,622,724,552
	Debt to asset ratio	**0.32:1**	0.33:1
Interest rate coverage ratio	Earnings before interest and tax Divided by: Interest expense	**₱ 24,741,932** **14,468,118**	₱ 47,350,408 13,517,163
	Interest rate coverage ratio	**1.71:1**	3.50:1

**Includes Cash and Current Receivables*

Diaz Murillo Dalupan and Company

WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Statement Required by Rule 68, Part I, Section 5, Revised Securities Regulation Code (SRC)

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of **Philippine Estates Corporation and Subsidiary** as at and for the year ended December 31, 2019 and have issued our report thereon dated June 11, 2020. The supplementary information shown in the *List of Supplementary Information* as additional component required by Rule 68, Part I, Section 5 of the Revised Securities Regulation Code, is presented for the purpose of filing with the Securities and Exchange Commission and is not a required part of basic consolidated financial statements. Such information is the responsibility of management and has been subjected to auditing procedures applied in the audit of basic consolidated financial statements. In our opinion, the information has been prepared in accordance with Rule 68 of the Revised 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-3, Group A, effective until April 2, 2022
BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022

By:

Richard Noel M. Ponce
Partner
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PTR No. 8147698, January 18, 2020, Makati City
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June 11, 2020

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
List of Supplementary Information
DECEMBER 31, 2019

SEC Supplementary Schedule as Required by the Revised SRC Rule 68

A. Financial Asset at Fair Value through Other Comprehensive Income (FVOCI)

B. Amounts Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

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

D. Long-Term Debt

E. Indebtedness of Related Parties

F. Guarantees of Securities of Other Issuers

G. Capital Stock

Other Required Information

Reconciliation of Retained Earnings Available for Dividend Declaration

Map showing the Relationship between the Company and its Related Entities

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Schedule A. Financial Asset at Fair Value through Other Comprehensive Income (FVOCI)
December 31, 2019

Name of Issuing entity and association 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 balance sheet date	Income received and accrued
Financial assets at FVOCI				
Waterfront Manila Premier Development, Inc.	125,000	₱12,500,000	₱ –	₱ –

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Schedule B – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other Than Related Parties)
December 31, 2019

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.	₱185,555,706	₱ –	₱3,627,609	₱ –	₱ –	₱ –	₱189,183,315	₱189,183,315
Forum Holdings Corp.	36,911,382	–	709,324	–	–	–	37,620,706	37,620,706
Kennex Container Corp.	34,488,803	–	662,251	–	–	–	35,151,054	35,151,054
Orient Pacific Corp.	33,183,063	–	472,379	–	–	–	33,655,442	33,655,442
Noble Arch Realty and Construction	4,657,425	21,082	81,612	–	–	–	4,760,119	4,760,119
Pacific Rehouse Corporation	587,064	586,068	–	(303,368)	–	–	869,764	869,764
Metro Alliance Holdings and Equities Corporation	–	278,270,000	–	–	–	–	278,270,000	278,270,000
International Polymer Corp.	1,562,908	–	24,484	(360,000)	–	–	1,227,392	1,227,392
	₱296,946,351	**₱278,877,150**	**₱5,577,659**	**(₱ 663,368)**	₱ –	₱ –	**₱580,737,792**	**₱580,737,792**

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statement
December 31, 2019

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Non-Current	Balance at end of period
Mariano Arroyo Development Corporation	₱ 152,084	₱ 840	₱ –	₱ –	₱ –	₱ 152,924	₱ 152,924

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Schedule D – Long Term Debt
December 31, 2019

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" in the related statement of financial position
Loan payable	Not Applicable	₱ 65,773,920	₱ 19,957,846

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Schedule E – Indebtedness to Related Parties (Long Term Loans From Related Companies)
December 31, 2019

Name of related party	Balance at beginning of period	Balance at end of period
Affiliates		
Waterfront Cebu City Hotel	₱ 92,054,457	₱ 92,054,457
The Wellex Group, Inc.	6,416,954	7,972,400
Concept Moulding Corp.	3,830,646	3,830,646
Manila Pavilion	166,530	166,530
	₱ 102,468,587	**₱ 104,024,033**

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Schedule F – Guarantees of Securities of Other Issuers
December 31, 2019

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

Not Applicable

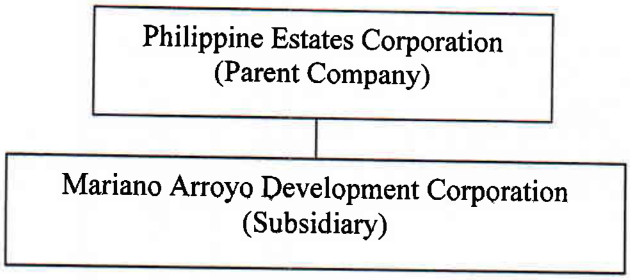
PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Schedule G – Capital Stock
December 31, 2019

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	2,058,100	760,980,740

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
Reconciliation of Retained Earnings Available For Dividend Declaration
December 31, 2019

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	₱ –	
Add: Net income actually earned/realized during the period	–	
Net income during the period closed to Retained Earnings	–	
Less: Non-actual/unrealized income net of tax	–	
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain	–	
Fair value adjustment (M2M gains)	–	
Fair value adjustment of Investment Property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP-gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Sub-total	–	
Add: Non-actual losses	–	
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP – loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Net income actually earned during the period		₱ –
Add (Less):		
Dividend declarations during the period	–	
Appropriations of Retained Earnings during the period	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
TOTAL RETAINED EARNINGS		–
END AVAILABLE FOR DIVIDEND		₱ –

PHILIPPINE ESTATES CORPORATION AND CONSOLIDATED SUBSIDIARY
Map of Conglomerate or Group of Companies within which the Company Belongs
December 31, 2019



Annex A: Sustainability Report

(For additional guidance on how to answer the Topics, organizations may refer to Annex B: Topic Guide)

Contextual Information

Company Details	
Name of Organization	Philippine Estates Corporation (**PHES**)
Location of Headquarters	35TH Floor One Corporate Centre, Ortigas Center, Pasig City
Location of Operations	PHES's projects and other developmental activities are located in the cities of Bulacan, Cebu and Iloilo
Report Boundary: Legal entities (e.g. subsidiaries) included in this report*	None
Business Model, including Primary Activities, Brands, Products, and Services	The principal activity of **PHES** 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.
Reporting Period	For the Year Ended December 31, 2019
Highest Ranking Person responsible for this report	Mr. Glenn Gerald D. Pantig -*Chief Operating Officer* Ms. Jocelyn A. Valle – *Finance Head and Compliance Officer*

**If you are a holding company, you could have an option whether to report on the holding company only or include the subsidiaries. However, please consider the principle of materiality when defining your report boundary.*

Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics.[1]
For Philippine Estates Corporation's (the Company) initial submission of this Sustainability Report, we identified the material topics which are deemed relevant to the operations of the Company on the basis of the Sustainability Accounting Standards Board (SASB) Materiality Map, specifically, for the Real Estate Industry. PHES identified the following issues as most likely to affect the economic, environmental and social impacts of the Company: 1. Environmental - Energy Management, Waste and Wastewater Management; 2. Social - Labor Practices, Product and/or Service Quality and Safety; 3. Economic - Supply Chain Management.

[1] See *GRI 102-46* (2016) for more guidance.

ECONOMIC

Economic Performance

Direct Economic Value Generated and Distributed

Disclosure	Amount (in million)	Units
Direct economic value generated (revenue)	212.6M	PhP
Direct economic value distributed:		
a. Operating costs	96.06M	PhP
b. Employee wages and benefits	24.49M	PhP
c. Payments to suppliers, other operating costs	74.28M	Php
d. Dividends given to stockholders and interest payments to loan providers	0.00	PhP
e. Taxes given to government	25.86M	PhP
f. Investments to community (e.g. donations, CSR)	0.008M	PhP

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The impact is on the generation of employment opportunities where the Company operates its businesses.	Employees, Community,	*The Company, as much as possible, employs personnel who are residents of the provinces where the Company's projects are located; these personnel are hired for managerial, staff, and skilled positions.*
Procurement from local businesses of goods and services essential to the project development and construction of buildings.	Suppliers	*As much as possible, the Company relies on contractors, suppliers, and service providers such as banks, that are based in the provinces where its projects are located.*
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
Contractor's availability. Certain skills and capabilities required in the delivery of the services necessary to the operations.	Contractor/Labor	*The Company, as much as possible, does not rely on just one (1), or even several contractors. Numerous contractors are kept in the Company's*

This may not be readily available from the community where the Company operates.		*contact, and at the same time, there is a continuous attempt to look for new contractors.*
Unstable Prices because of taxes and availability of construction materials limited to certain suppliers.	Suppliers/Government	*Aside from maintaining a relationship with several suppliers, the Company may, as the need arises, purchase additional orders of items that it deems as essential and may be subject to sudden increases in price or significant reduction in supply.*
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company remains committed to support the government as a partner in providing quality residential buildings to meet the growing demands of local residents and relatives abroad. This results in needing more manpower and construction materials for the operations.	Labor and Suppliers	*The Company has introduced projects in various locations throughout the Philippines, and will continue to look for various areas of expansion, in order to provide residences to more people. The Company has also introduced more products at different price points, so that each project can cater to more than 1 economic group.*

Climate-related risks and opportunities[2]

The Company has yet to implement certain metrics and targets to assess and manage the relevant climate-related risks and opportunities at this stage.

Governance	Strategy	Risk Management	Metrics and Targets
Recommended Disclosures			

[2] Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers and asset owners.

Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	90	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Most of the suppliers of construction materials and laborers are from local business partners. This will lessen the delivery cost and it saves time from finishing the project.	Suppliers and Laborers	*Since the Company relies mostly on local contractors, the contractors themselves, as much as possible, source their own materials from local suppliers, to ensure lower costs.*
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The availability of the type of materials and services may not be sufficient or meet the standard requirements by the Company on its operations.	Suppliers, Laborers	*The Company, as the need arises, aids suppliers in sourcing of materials if the contractors are unable to find the proper materials. This is done through the Company's own network of suppliers who have provided for the Company previously.*
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The opportunity to use construction materials that are locally produced which are sustainable at any given construction period.	Suppliers	*Unless as a last resort, all materials used for construction are sourced from suppliers from the same location as the projects of the Company.*

Anti-corruption

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	%

Percentage of directors and management that have received anti-corruption training	100	%
Percentage of employees that have received anti-corruption training	100	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of this reporting period		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	-	#
Number of incidents in which employees were dismissed or disciplined for corruption	-	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	-	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material		

impact under this category as of this reporting period		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

ENVIRONMENT

Resource Management

Energy consumption within the organization:

Disclosure	Quantity	Units
Energy consumption (renewable sources)	-	GJ
Energy consumption (gasoline)	-	GJ
Energy consumption (LPG)	-	GJ
Energy consumption (diesel)	19,200	Liter
Energy consumption (electricity)	24,000	kWh

Reduction of energy consumption

Disclosure	Quantity	Units
Energy reduction (gasoline)	-	GJ
Energy reduction (LPG)	-	GJ
Energy reduction (diesel)	-	GJ
Energy reduction (electricity)	-	kWh
Energy reduction (gasoline)	-	GJ

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of this reporting period		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Water consumption within the organization

Disclosure	Quantity	Units
Water withdrawal	105,000	Cubic meters
Water consumption	125,000	Cubic meters
Water recycled and reused	-	Cubic meters

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of this reporting period.		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Materials used by the organization

Disclosure	Quantity	Units
Materials used by weight or volume		
● renewable	-	kg/liters
● non-renewable	-	kg/liters
Percentage of recycled input materials used to manufacture the organization's primary products and services	-	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of this reporting period.		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	-	
Habitats protected or restored	-	ha
IUCN[3] Red List species and national conservation list species with habitats in areas affected by operations	-	

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of		

[3] International Union for Conservation of Nature

this reporting period.		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Environmental impact management

Air Emissions

GHG

Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions	-	Tonnes CO_2e
Energy indirect (Scope 2) GHG Emissions	-	Tonnes CO_2e
Emissions of ozone-depleting substances (ODS)	-	Tonnes

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of this reporting period.		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting		

period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Air pollutants

Disclosure	Quantity	Units
NO_x	---	Mg/NCM
SO_x		kg
Persistent organic pollutants (POPs)		kg
Volatile organic compounds (VOCs)		kg
Hazardous air pollutants (HAPs)		kg
Particulate matter (PM)		kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of this reporting period.		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Solid and Hazardous Wastes

Solid Waste

Disclosure	Quantity	Units
Total solid waste generated	-------	kg
Reusable		kg
Recyclable		kg
Composted		kg
Incinerated		kg
Residuals/Landfilled	-------	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The impact is on the environment which contributed to the rapid filling-up of the landfills capacity in the community	Community	*The Deed of Restrictions and Construction Guidelines that the Company imposes on all residents/buyers provide instructions on how garbage/waste is supposed to be disposed of. The Company also ensures proper coordination with the local government authorities on the collection and disposal services offered in the location of the projects.*
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
Waste materials may cause accidents or even flooding.	Community	*For each project site, the Company hires Property Management personnel who are trained and knowledgeable in maintenance of developments. Included in their scope of works is ensuring that all drainage lines are clean and no build-up of materials hampers the flow of sewage or flood water.*
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company practices the proper segregation of waste by bringing this practice by the	Community/Employees	*The Company, in compliance with the rules and regulations of the Department of Natural Resources, constructs material recovery facilities in*

employees to their homes.		*each of its projects so that there are specific areas designated for the segregation of waste materials.*

Hazardous Waste

Disclosure	Quantity	Units
Total weight of hazardous waste generated		Kg
Total weight of hazardous waste transported		Kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of this reporting period.		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Effluents

Disclosure	Quantity	Units
Total volume of water discharges	-	Cubic meters
Percent of wastewater recycled	-	%

What is the impact and where does it occur? What is the	Which stakeholders	Management Approach

organization's involvement in the impact?	are affected?	
The Company has no material impact under this category as of this reporting period.		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

Environmental compliance

Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	-	Ph0.00
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	-	#
No. of cases resolved through dispute resolution mechanism	-	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company has no material impact under this category as of this reporting period.		
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**

The Company has no material risk(s) identified under this category as of this reporting period		
What are the Opportunity/ies Identified?	**Which stakeholders are affected?**	**Management Approach**
The Company has no material opportunity(ies) identified under this category as of this reporting period		

SOCIAL

Employee Management

Employee Hiring and Benefits

Employee data

Disclosure	Quantity	Units
Total number of employees[4]		
a. Number of female employees	54	#
b. Number of male employees	26	#
Attrition rate[5]	12%	rate
Ratio of lowest paid employee against minimum wage	1:1	ratio

Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS	Y	100%	100%
PhilHealth	Y	100%	100%
Pag-ibig	Y	100%	100%
Parental leaves	Y	2.5%	1.25%
Vacation leaves	Y	100%	100%
Sick leaves	Y	100%	100%
Medical benefits (aside from PhilHealth))	Y	90%	90%
Housing assistance (aside from Pag-ibig)	N		

[4] Employees are individuals who are in an employment relationship with the organization, according to national law or its application (GRI Standards 2016 Glossary)

[5] Attrition are = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year)

Retirement fund (aside from SSS)	Y	-	3.75%
Further education support	N		
Company stock options	N		
Telecommuting	N		
Flexible-working Hours	N		
(Others)			

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
The Company is fully involved in ensuring that these benefits are fully complied with for the motivation and efficiency of the employees.	*All government mandated wages and benefits are strictly complied with by the Company.*
What are the Risk/s Identified?	**Management Approach**
If not complied with these benefits, the employees become demotivated and inefficient.	*Non-compliance by the Company of the wages and benefits that are legally mandated by law may result not only in employee demotivation, but also in penalties by the government.*
What are the Opportunity/ies Identified?	**Management Approach**
Giving these benefits would be resulted to work-life balance, motivated and efficient employees	*Employee satisfaction does not only lead to employee retention, but definitely to increased productivity.*

Employee Training and Development

Disclosure	**Quantity**	**Units**
Total training hours provided to employees		
a. Female employees	8	hours
b. Male employees	8	Hours
Average training hours provided to employees		
a. Female employees	8	hours/employee
b. Male employees	8	hours/employee

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Having competent and skilled employees would result in a high level of performance that may contribute to the Company's goals and objectives.	*Aside from the appropriate training for the employees depending on their qualifications and specializations, the Company encourages employees to explore other disciplines and assigns tasks that can serve as their training for other areas in the business. For example, Engineers and Architects have been introduced to some accounting principles and have been asked to prepare reports that deal with various matters, not just construction issues.*
What are the Risk/s Identified?	**Management Approach**
Skilled and competent employees are marketable which may lead to an increased attrition rate.	*The Company tries to ensure the retention of competent employees through regular performance evaluation and feedback, wherein promotion and increased remuneration may be considered for the employees.*
What are the Opportunity/ies Identified?	**Management Approach**
Having standard training will continuously improve the process in executing the finished project.	*With the continuous introduction of new methods and technologies in the real estate industry, providing training to the employees will allow the Company to keep up with the competition. The employees will not be the only ones to benefit from the training, but the Company itself as well.*

Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements	-	%
Number of consultations conducted with employees concerning employee-related policies	2	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
PHES provides quality jobs and growth	*As mentioned, the Company conducts*

opportunities for its employees. Thus, the Company has a stronger labor and management relationship.	*performance evaluations wherein the employees are apprised of how their production for the previous year compared to the goals set at the start of the year. It is through the evaluation wherein the adjustment in compensation and position, if applicable, is determined.*
What are the Risk/s Identified?	**Management Approach**
There's no significant risk(s) identified under this category.	
What are the Opportunity/ies Identified?	**Management Approach**
Implementation of annual performance based approach institutes stronger labor-management relationship.	*By providing a venue for employees to hear what is expected of them and how they performed for the previous year, the Company allows for transparency and an open communication line that will hopefully enhance the employer-employee relationship.*

Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce	67.5%	%
% of male workers in the workforce	32.5%	%
Number of employees from indigenous communities and/or vulnerable sector*	1	#

**Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).*

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
There's no significant impact under this category	
What are the Risk/s Identified?	**Management Approach**
There's no significant risk(s) identified under this category	
What are the Opportunity/ies Identified?	**Management Approach**
There's no significant opportunity(ies)	

identified under this category	

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-Hours	X 8 HRS	Man-hours
No. of work-related injuries	-	#
No. of work-related fatalities	-	#
No. of work related ill-health	-	#
No. of safety drills	2 (two)	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
The impact is on the health and safety of employees and contractors within the business operation.	*The Company adheres to the required health and safety measures prescribed by law, which includes the assignment of a Safety Officer for the Head Office. For the site operations, both the Engineering/Construction and Property Management teams ensure that the employees and contractors observe the proper safety standards.*
What are the Risk/s Identified?	**Management Approach**
Even though there are safety measures in place, some employees may opt not to follow the guidelines.	*The Company's Employee Handbook provides for appropriate penalties for non-compliance with the set health and safety guidelines enumerated therein.*
What are the Opportunity/ies Identified?	**Management Approach**
Having a safe workplace may avoid any untoward incidents.	*As an added precaution, part of the benefits provided to employees is a medical plan, which is enjoyed by all employees of the Company.*

Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	-	#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor	N	
Child labor	N	
Human Rights	Y	Health & Safety Policy, Data Privacy Policy, Solo Parent Policy

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
In compliance with the labor code, the Company is doing the best for its employee's rights.	*As a publicly listed company, PHES ensures strict compliance with the Labor Code of the Philippines.*
What are the Risk/s Identified?	**Management Approach**
May lead to lawsuits if not properly managed.	*Aside from employing a Human Resources practitioner, the company also employs the services of lawyers to protect the Company from possible lawsuits.*
What are the Opportunity/ies Identified?	**Management Approach**
If properly managed, it will establish a healthy working environment.	*With the proper guidelines in place, the Company expects improved employee satisfaction and lesser turnover.*

Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

https://phes.com.ph

Do you consider the following sustainability topics when accrediting suppliers?

Topic	Y/N	If Yes, cite reference in the supplier policy
Environmental performance	N	The Company's projects are compliant with the national government's DENR, ECC and all LGU's requirements.
Forced labor	N	
Child labor	N	
Human rights	N	
Bribery and corruption	N	

What is the impact and where does it occur?	Management Approach

What is the organization's involvement in the impact?	
The impact is on the supplier's quality and efficient services in providing the standard materials required by the Company.	*As much as possible, all purchases made by the Company, whether items or services, are coursed through the Purchasing Department, after passing through the bidding and award process. This procedure allows for careful evaluation by the Bids and Awards Committee of the quality or capacity of the bidder, prior to finalizing the purchase.*
What are the Risk/s Identified?	**Management Approach**
If Company policy in terms of qualifying suppliers is not properly followed, there may be a cost effect or may compromise the quality of the materials or services to be rendered.	*The Company continually looks for potential suppliers and contractors, through various avenues, to ensure that the Company has multiple choices for every acquisition made.*
What are the Opportunity/ies Identified?	**Management Approach**
If properly followed the policy then, surely the quality of the materials or services required by the Company may deliver at the best time and justifiable cost.	*By not limiting the number of suppliers/contractors it transacts with, the Company is able to obtain the best materials/services at the best available prices.*

Relationship with Community

Significant Impacts on Local Communities

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	Location	Vulnerable groups (if applicable)*	Does the particular operation have impacts on indigenous people (Y/N)?	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
Housing Development	Cebu, Iloilo and Malolos	General Population	N	*Illegal settlers who are occupying*	*Provision of compensation or alternative*

Commercial Building Development	Cebu City	General Population	N	*properties owned by the Company*	*properties for transfer/ relocation of illegal settlers*

**Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)*

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: _-

Certificates	Quantity	Units
FPIC process is still undergoing	-	#
CP secured	-	#

What are the Risk/s Identified?	Management Approach
There's no significant risk(s) identified under this category	
What are the Opportunity/ies Identified?	**Management Approach**
There's no significant opportunity(ies) identified under this category	

Customer Management

Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction	-	N

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
The impact is on the customer's satisfaction that the Company delivers the project on time and completed.	*Aside from securing the services of qualified suppliers and contractors, the Company employs personnel who are skilled and trained in ensuring delivery of the projects, as promised to the buyers when they made their purchases, which leads to less customer complaints.*

What are the Risk/s Identified?	Management Approach
Poor management services for the satisfaction of the customer may lead to lesser sales.	*Aside from employing personnel at the site offices who are tasked to address complaints, the Company has also opened several communications lines such that customers have several ways by which to air their grievances to the Company.*
What are the Opportunity/ies Identified?	**Management Approach**
Happy and satisfied customer may increase the sales of the Company through possible referrals.	*When the Company turns over the purchased units to buyers, included in the turnover are the Sales, Property Management, and Construction personnel. This is done to show to the buyers that the entire team is working together to ensure that all buyers are satisfied and that even after they complete their purchase, they can rely on the Company to help in every way it can.*

Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety*	-	#
No. of complaints addressed	-	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Health and safety of the customer is always considered by the Company in designing and building its project.	*As mentioned, the Company ascertains compliance with the safety parameters mandated by the government by planning and designing all deliverables within the set standards of the applicable rules and regulations.*
What are the Risk/s Identified?	**Management Approach**
There's no significant risk(s) identified under this category.	

What are the Opportunity/ies Identified?	Management Approach
Having a safely designed and completed project, will avoid back job orders and additional cost.	*All personnel (engineers and architects) hired to supervise construction works are skilled and licensed by the proper government agencies. Aside from that, Property Management personnel are hired to assist buyers/homeowners in ensuring continued compliance to safety and security policies within the projects.*

Marketing and labelling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labelling*	-	#
No. of complaints addressed	-	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
The Company advertises its products/projects through billboards, online ads, LED screen and brochures for the target markets.	*As mandated by law, all marketing materials are first approved by the Housing and Land Use Regulatory Board before being used by the Company.*
What are the Risk/s Identified?	**Management Approach**
Vague marketing information and labelling products/projects may confuse the buying markets.	*The marketing materials utilized by the Company are reviewed several times prior to use to ensure that the data contained on the materials are as accurate as possible.*
What are the Opportunity/ies Identified?	**Management Approach**
Proper marketing information may encourage the buying markets.	*As available, the depictions used in the marketing materials are of actual pictures of the projects/houses that the Company is offering. This gives the potential buyers a clearer idea on what to expect, if they choose to visit the project sites. This also gives the impression that the Company is not looking to deceive potential buyers by using drawings or*

	touched up pictures.

Customer privacy

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy*	-	#
No. of complaints addressed	-	#
No. of customers, users and account holders whose information is used for secondary purposes	134	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
The Company is protecting the privacy of its customer and its integrity for the trust and confidence may last.	*All information on buyers gathered by the Company are kept confidential. Any disclosures that the Company may make will only be done within the parameters set by the Data Privacy Act.*
What are the Risk/s Identified?	**Management Approach**
There's no risk(s) identified under this category.	
What are the Opportunity/ies Identified?	**Management Approach**
There's no opportunity(ies) identified under this category.	

Data Security

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts and losses of data	-	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
The Company keeps the trust and confidence of	*All information gathered by the Company on*

the customer by securing their personal data in a safe file.	*any of its stakeholders, not just actual buyers, are kept confidential. This confidentiality is even extended to those who are not direct stakeholders of the Company yet, such as job applicants and potential suppliers/contractors. Any disclosures that the Company may make will only be done within the parameters set by the Data Privacy Act.*
What are the Risk/s Identified?	**Management Approach**
There's no risk(s) identified under this category.	
What are the Opportunity/ies Identified?	**Management Approach**
There's no opportunity(ies) identified under this category.	

UN SUSTAINABLE DEVELOPMENT GOALS

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Development of Real Estates	SDG 8: *Decent Work and Economic Growth* SGD 11: *Sustainability Cities and Communities*	✔ Lack of available job opportunities offered to the vulnerable sector like elderly people. ✔ Decreasing agricultural land area because of the infrastructure and building new cities.	*- Development of projects that are not purely residential in nature, but also have commercial components which would allow buyers to establish their own businesses, while remaining close to their residences.* *- Developments are limited to those areas that have been classified by the LGUs as no longer for agricultural use. At the same time, the Company ensures compliance with the necessary permits required by the Department of Agriculture prior to development of properties.*

** None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.*