

S E C N O . 1 1 2 9 7 8

SEC Registration No.

P H I L I P P I N E E S T A T E S C O R P O R A T I O N

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(Company's Full Name)

3 5 T H F L R O N E C O R P O R A T E C E N T E R

J U L I A V A R G A S C O R . M E R A L C O A V E .

O R T I G A S C E N T E R , P A S I G C I T Y

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

JOCELYN A. VALLE

Contact Person

8637-3112

Contact Telephone No.

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DEFINITIVE 20-15

FORM TYPE

[Empty box]

Annual Meeting

[Empty box]

Secondary License Type, If Applicable

C F D

Dept. Requiring this Doc.

[Empty box]

Amended Articles Number/Section

Total Amount of Borrowings

[Empty box]

Total No. of Stockholders

[Empty box]

Domestic

[Empty box]

Foreign

To be accomplished by SEC Personnel concerned

[Empty grid]

File Number

LCU

[Empty grid]

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes



NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO: ALL STOCKHOLDERS

Notice is hereby given that the **ANNUAL MEETING OF STOCKHOLDERS** of **PHILIPPINE ESTATES CORPORATION** will be held on 30 October 2020, Friday, at 2:00 P.M. In light of the COVID-19 pandemic and to ensure the safety and welfare of our stockholders, the meeting will be conducted virtually via secure online meeting platform to pass upon the matters:

- 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 2019.
- e. Ratifications of the Acts of the Board and Management.
- f. Election of Directors for 2020-2021.
- g. Appointment of External Auditor.
- h. Appointment of External Counsel
- i. Other matters.
 - Authority to Pledge Shares of Stock in Waterfront Manila Premier Development, Inc.
- j. Adjournment.

Stockholders of record as of 5 October 2020 shall be entitled to vote at the Meeting.

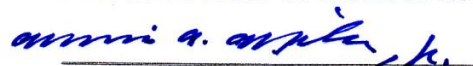
PARTICIPATION ONLY VIA REMOTE COMMUNICATION. Stockholders can only participate in the meeting by remote communication. Stockholders as of the Record Date who intend to participate or be represented in the meeting should register for the meeting by notifying the Corporation by email at corpsec.phes2020asm@gmail.com not later than 16 October 2020 (at 5:00P.M.) and shall first submit a copy of proof of identity, ownership and other certification/information for validation purposes and/or duly accomplished proxy instrument for a representative to the virtual meeting, if applicable. Stockholders as of the Record Date who are interested in casting their votes on any of the matters to be presented during the 2020 ASM must cast their votes on or before 23 October 2020 (at 5:00P.M.).

VOTES MAY BE CAST ONLY THROUGH ONLINE CASTING OF VOTES/PROXIES ON OR BEFORE 23 October 2020 (at 5:00P.M.). Stockholders whose shareholdings are lodged with the Philippine Central Depository are reminded to secure a certification of your shareholdings from your respective stockbrokers.

WE ARE NOT SOLICITING YOUR PROXY.

Pasig City, Philippines, October 5, 2020.

FOR THE BOARD OF DIRECTORS


ATTY. ARSENIO A. ALFILER, JR.
Corporate Secretary

For more information regarding the Annual Meeting of Stockholders, please contact the **Assistant Corporate Secretary**, **Atty. Mariel Latorre Francisco**, **8687-7536**, at corpsec.phes2020asm@gmail.com.

PROXY

KNOW ALL MEN BY THESE PRESENTS:

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

Mr./Ms. _____; or in his absence
Mr./Ms. _____; or in his absence

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

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

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

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

_____, _____ 2020.

PRINTED NAME OF STOCKHOLDER _____

SIGNATURE OF STOCKHOLDER _____

SEC Number 112978

File Number _____

PHILIPPINE ESTATES CORPORATION

(Company's Full Name)

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

(Company's Address)

8637-3112

(Telephone Number)

December 31

(Fiscal Year Ending)
(Month and day)

SEC Form 20-IS

(Form Type)

Amended Designation (if applicable)

December 31, 2019

Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
 Preliminary Information Statement
 Definitive Information Statement
2. Name of Registrant as specified in its charter **PHILIPPINE ESTATES CORPORATION**
3. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization
4. SEC Identification Number **112978**
5. BIR Tax Identification Code **000-263-366**
6. **35th Floor, One Corporate Centre, Julia Vargas corner Meralco Ave., Ortigas Center, Pasig City, Metro Manila**
Address of principal office Postal Code **1605**
7. Registrant's telephone number, including area code **Tel. No. (02) 8637-3112 / Fax No. (02) 8636-8847**
8. Date, time and place of the meeting of security holders
Date - **30 October 2020**
Time - **2:00 PM**
Platform - **Remote Communication in accordance with SEC Memorandum Circular No. 6, Series of 2020**
9. Approximate date on which the Information Statement will be published through alternative mode of distribution through the Corporation's website and PSE Edge: **October 5, 2020.**
10. In case of proxy Solicitation : **Not applicable**
11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|---|---|
| Common Shares, ₱1.00 par value | 1,445,549,830 |
| Amount of Debt Outstanding as of June 30, 2020 | ₱102,288,138 |

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Common Shares are listed on the Philippine Stock Exchange

PART – I

A. GENERAL INFORMATION

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

- (a.) Date, time and place of meeting: October 30, 2020, 2:00 P.M.
Via Remote Communication in accordance with SEC Memorandum Circular No.6, Series of 2020.
- Complete mailing address of principal office: 35th Floor, One Corporate Center,
Julia Vargas Ave., corner
Meralco Ave., Ortigas Center, Pasig City,
Metro Manila.
- (b.) Approximate date on which the Information Statement will be published through alternative mode of distribution through the Corporation's website and PSE Edge: October 5, 2020

Item 2. Dissenters' Right of Appraisal

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

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

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

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof.

- (a) The number of common shares of stock issued and outstanding as of August 31, 2020 is 1,445,549,830. The common shares owned by Filipinos is 1,392,037,250 or equivalent to 96.30%. Common shares allowed to foreigners is 578,219,932 and the total shares owned by foreigners is 53,512,580 or equivalent to 3.70%. For the purpose of electing Directors at the forthcoming Annual Meeting of Stockholders, stockholders enjoy cumulative voting rights. Each common share is entitled to eleven (11) votes which may be cast cumulatively in favor of one candidate, or distributively to as many candidates and in any proportion as the stockholders see fit.
- (b) Only persons who are stockholders of record as of 5 October 2020 may vote, or be voted upon, for the position of Director.
- (c) Security ownership of certain record and beneficial owners and management.

1. Security ownership of certain record and beneficial owners of more than five percent (5%) as of August 31, 2020:

Name and Address of

Name of Beneficial

| Title of Class | Record/Beneficial Owner and Relationship with Issuer | Owner & Relationship with Record Owner | Citizenship | Number of Shares Held | % of Ownership |
|----------------|--|--|--------------|-----------------------|----------------|
| Common | PCD NOMINEE CORP. Indirect Beneficial Ownership 6767 Ayala Ave. Makati City | ----- | Filipino | 705,874,350 | 48.831 |
| Common | PCD NOMINEE CORP. Indirect Beneficial Ownership 6767 Ayala Ave. Makati City | ----- | Non-Filipino | 53,511,010 | 3.702 |
| Common | RECOVERY REAL ESTATE CORP. 22 nd Flr. CITIBANK TOWER 8741 PASEO DE ROXAS MAKATI CITY Affiliate-Direct Beneficial Ownership | DEE HUA T. GATCHALIAN Corporate Treasurer | Filipino | 150,000,000 | 10.377 |
| Common | REXLON REALTY GROUP, INC. 22 ND Flr. CITIBANK TOWER 8741 PASEO DE ROXAS MAKATI CITY Affiliate-Direct Beneficial Ownership | DEE HUA T. GATCHALIAN Corporate Treasurer | Filipino | 200,000,000 | 13.836 |
| Common | ROPEMAN INTERNATIONAL CORP. #7 T. SANTIAGO ST. CANUMAY, VALENZUELA METRO MANILA Affiliate-Direct Beneficial Ownership | DEE HUA T. GATCHALIAN Corporate Treasurer | Filipino | 178,270,000 | 12.332 |
| Common | THE WELLEX GROUP, INC. 35 TH FLR. ONE CORP. CENTER UNITS 3504 & 3504, JULIA VARGAS CORNER MERALCO AVE., ORTIGAS CENTER, PASIG CITY Affiliate-Direct Beneficial Ownership | DEE HUA T. GATCHALIAN Assistant Corporate Treasurer | Filipino | 143,892,990 | 9.954 |

2. Security ownership of management as of August 31, 2020:

1. Security Ownership of Management.

| Title of Class | Name of Beneficial Owner | Citizenship | Amount and Nature of Class | % of Ownership |
|----------------|---|-------------|--|----------------|
| Common | Arthur M. Lopez Chairman/Director | Filipino | 1,000-Direct Beneficial Ownership | 0.000 |
| Common | Dee Hua T. Gatchalian Director | Filipino | 2,000-Direct Beneficial Ownership | 0.000 |
| Common | Ms. Elvira A. Ting President / CEO | Filipino | 500,000-Direct Beneficial Ownership | 0.035 |
| Common | Joaquin P. Obieta Director | Filipino | 1,100-Direct Beneficial Ownership | 0.000 |
| Common | Sergio R. Ortiz-Luis, Jr. Independent Director | Filipino | 1,000-Direct Beneficial Ownership | 0.000 |
| Common | Arthur R. Ponsaran Director | Filipino | 1,000-Direct Beneficial Ownership | 0.000 |
| Common | Richard L. Ricardo Treasurer/Director | Filipino | 1,230,000-Direct Beneficial Ownership | 0.085 |
| Common | Kenneth T. Gatchalian Vice Chairman/Director | Filipino | 320,000 Direct Beneficial Ownership | 0.022 |
| Common | Byoung Hyun Suh Independent Director | Filipino | 1,000-Direct Beneficial Ownership | 0.000 |
| Common | James Palit-Ang Director | Filipino | 1,000-Direct Beneficial Ownership | 0.000 |

- ◆ Beneficial ownership of all directors and officers as a group unnamed is 2,058,100 shares.
 - ◆ Voting Trust Holders of five percent (5%) or more.
There are no voting trust holders of five percent (5%) or more of the securities of the registrant.
 - ◆ Changes in control:
There has been no change in the control of the registrant since the beginning of its fiscal year.
- * Recovery Real Estate Corporation is represented by Mrs. Dee Hua T. Gatchalian.
 ** Rexlon Realty Group, Inc. is represented by Mrs. Dee Hua T. Gatchalian.
 *** Ropeman International Corporation is represented by Mrs. Dee Hua T. Gatchalian.
 **** The Wellex Group, Inc. is represented by Mrs. Dee Hua T. Gatchalian.

MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY

(1) Market Information

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

| | 2020 | | 2019 | | 2018 | |
|----|-------|-------|------|------|------|------|
| | High | Low | High | Low | High | Low |
| Q1 | 0.46 | 0.32 | 0.49 | 0.44 | 0.48 | 0.30 |
| Q2 | 0.35 | 0.29 | 0.49 | 0.44 | 0.49 | 0.39 |
| Q3 | - x - | - x - | 0.52 | 0.41 | 0.55 | 0.42 |
| Q4 | - x - | - x - | 0.46 | 0.39 | 0.48 | 0.41 |

- The sales price as of August 26, 2020 was 0.2900.
- There were no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

(2) Holders

The number of holders of common shares as of August 31, 2020 was 706.

Names of the Top Twenty (20) shareholders as of August 31, 2020 the number of shares held, and the percentage of total shares outstanding held by each.

| Rank | Stockholders Name | No. of Shares Held | % of Ownership |
|------|---|--------------------|----------------|
| 1 | PCD Nominee Corporation (Filipino) | 705,874,350 | 48.831 |
| 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) | 53,511,010 | 3.702 |
| 7 | Recovery Development Corp. | 3,000,900 | 0.208 |
| 8 | Vicente C. Co | 1,575,000 | 0.109 |

| | | | |
|----|-----------------------------|-----------|-------|
| 9 | Richard Ricardo | 1,230,000 | 0.085 |
| 10 | Renato B. Magadia | 1,000,000 | 0.069 |
| 11 | Anthony Samuel Lee | 900,000 | 0.062 |
| 12 | International Polymer Corp. | 718,000 | 0.050 |
| 13 | Juliet Bangayan | 545,000 | 0.038 |
| 14 | Rodolfo S. Estrellado | 500,000 | 0.035 |
| 15 | Elvira A. Ting | 500,000 | 0.035 |
| 16 | Benison L.Co | 364,000 | 0.025 |
| 17 | Kenneth T. Gatchalian | 320,000 | 0.022 |
| 18 | Carolina G. Aquino | 250,000 | 0.017 |
| 19 | Betty S. Chan | 250,000 | 0.017 |
| 20 | Neptali A. Gonzales | 250,000 | 0.017 |

(3) Dividends

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

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

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

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

Item 5. Directors and Executive Officers

1. Respective business experience of the Members of the Board of Directors and Officers covering the past five (5) years:
 - a. **ARTHUR M. LOPEZ** – 73 year old, Filipino (**Chairman**)
Country Representative – CCA Management B.V.
Consultant – Bellevue Resort, Bellevue Suites and Palmerston Hotel
Chairman – Acesite Philippines Hotel Corporation
Director – Waterfront Hotels
 - b. **KENNETH T. GATCHALIAN** – 43 year 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** – 59 year old, Filipino (**President/CEO**)
Director / President – Forum Pacific, Inc.
Vice President/Director – Wellex Industries, Inc.
Director/ Treasurer – Waterfront Philippines, Inc.
Vice Chairman /Director – Acesite Philippines, Inc.
Treasurer/ Director – Recovery Dev't Corp.
Chairwoman and President – Orient Pacific Corp.
Director – Plastic City Industrial Corp.
Treasurer / Director – The Wellex Group, Inc..

Chairwoman and President – Crisanta Realty & Development Corp.
Corp. Secretary / Director – Waterfront Manila Premier Development, Inc.

- d. **JOAQUIN P. OBIETA** - 86 year old, Filipino (**Director**)
Partner – Corporate Counsels, Phils.
Director – Forum Pacific, Inc.
- e. **DEE HUA T. GATCHALIAN** – 71 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
- f. **ARTHUR R. PONSARAN** - 76 years old, Filipino (**Director**)
Managing Partner – Corporate Counsels, Phils. Law Offices
Director – Forum Pacific, Inc., Acesite (Phils.) Hotel Corporation
Corporate Secretary – Waterfront Philippines Incorporation, Wilcon Corporation
Chairman – Value Management & Options Corp. and Marfour Credit Corporation
- g. **BYOUNG HYUN SUH** – 63 years old, Korean (**Independent Director**)
President – Pan Islands, Inc.
Independent Director – Forum Pacific, Inc.
Independent Director – Wellex Industries, Incorporated
Dictator and President – World Okta Federation
- h. **RICHARD L. RICARDO** - 56 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.
- i. **JAMES B. PALIT-ANG** – 56 years old, Filipino (**Director/VP- Property Management**)
Chairman & President – Noble Arch Realty & Construction Corp.
Chairman & President - Crisanta Realty Development Corp.
Director & Corporate Treasurer – Pacific Rehouse Corporation
Vice President – Forum Holdings Corp.
Chairman and President – Pacific Concorde Corp.
Treasurer – Metro Alliance Holdings & Equities Corp.
- j. **SERGIO R. ORTIZ-LUIS, JR.**- 78 years old, Filipino (**Independent Director**)
President/CEO – Philippine Exporters Confederation, Inc.
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

k. **ARSENIO A. ALFILER, JR.**- 73 years old, Filipino (**Corporate Secretary**)

Partner – Corporate Counsels, Phils. Law Offices
Corporate Secretary – Forum Pacific, Inc., Acesite (Phils.) Hotel Corporation
Assistant Corporate Secretary – Waterfront Philippines, Inc., Iloilo City Development Bank

l. **MARIEL FRANCISCO** – 39 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.

m. **JOCELYN A. VALLE** – 57 years old, Filipino (**Corporate Compliance Officer**)

Finance Head – Philippine Estates Corporation

Term of Office

The term of office of the Directors is one (1) year. We take note of SEC Memorandum Circular No. 9 Series of 2011, regarding the Term Limits for Independent Directors and we are presently reviewing the term limits of our current Independent Directors.

The newly elected Directors elected the following Corporate Officers and Committee members during their organizational meeting to serve for the term 2019-2020:

- | | |
|---|--------------------------------|
| 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 Ricardo |
| e) Corporate Secretary | - Atty. Arsenio A. Alfiler Jr. |
| f) Asst. Corporate Secretary | - Atty. Mariel Francisco |
| g)Lead Independent Director | - Mr. Sergio Ortiz-Luiz, Jr. |
| h)Chief Audit Executive | - Mr. Byoung Y. Suh |
| i)Chief Risk Officer | - Mr. James Palit-Ang |
| j)Compliance Officer | - Ms. Jocelyn A. Valle |

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)

2. There is no person who is not an executive officer but expected by the registrant to make significant contribution to the business.
3. Ms. Dee Hua T. Gatchalian and Ms. Elvira A. Ting are sisters.
4. None of the directors or officers of the registrant has been involved in any: (a.) Bankruptcy Petition, (b.) Violation of a Securities or Commodities Law, (c.) Conviction by final judgment, (d.) Nor has the foregoing officers been subjected to any order or decree, (e.) None of the foregoing incidents occurred during the past five (5) years up to 31 August 2020 that are material to, and for purposes of SEC's evaluation.
5. Certain Relationships and Related Transactions.

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

Board of Directors

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

The nominees for election to the Board of Directors of the Corporation on October 30, 2020 are as follows:

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

11. Sergio R. Ortiz-Luis, Jr.

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

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

The independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The Certifications of the independent directors are attached herewith as Annexes "A-1", "A-2" and "A-3".

Pursuant to the process conducted by the Nominations Committee, the nominees for election as independent directors of the Board of Directors on October 30, 2020 are as follows:

Mr. Sergio R. Ortiz-Luis, Jr., 78 year old, Filipino, is an **Independent Director** of the Company. He also serves as the President of Philippine Exporters Confederation Inc., Director of Waterfront Philippines, Inc. Director of Manila Exposition Complex, Inc. (WTC), Vice-Chairman of Alliance Global, Inc., Director of Acesite (Phils.)Hotel Corporation and Director of The Wellex Group

Mr. Byoung Hyun Suh, 63 year old, Korean, is an **Independent Director** of the Company. He also serves as the President of the Pan Islands, Inc., President of National Unification Advisory Council Southeast Asia Chapter – R.O.K., Independent Director of Forum Pacific, Inc. and Wellex Industries, Incorporated and President of World Okta Federation.

Atty. Renato C. Francisco, 72 year old, Filipino, is an **Independent Director** of the Company. He also serves as an Independent Director of Forum Pacific, Inc. and Director of Acesite (Phils.) Hotel Corporation.

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

(2.) Significant Employees

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

(3.) Family Relationships

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

(4.) Involvement in Certain Legal Proceedings

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

The case pending before the Office of the City Prosecutor of Iloilo 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.

Item 6. Compensation of Executive Officers.

1. Compensation :

| <i>Name and Principal Position</i> | <i>Year</i> | | <i>Salary</i> | <i>Bonus</i> | <i>Other Annual Compensation (13th Mo.)</i> |
|--|-------------|---|---------------|--------------|--|
| ELVIRA A. TING President & CEO | 2020 | P | 840,000.00 | 0.00 | P 70,000.00 |
| JAMES B. PALIT-ANG VP – Business Dev’t (Vismin) | 2020 | P | 624,000.00 | 0.00 | P 52,000.00 |
| GLENN GERALD PANTIG Chief Operating Officer | 2020 | P | 1,200,000.00 | 0.00 | P 100,000.00 |
| JOCELYN A. VALLE Finance Head | 2020 | P | 504,000.00 | 0.00 | P 42,000.00 |
| FERDINAND P. HALILI Operations Head | 2020 | P | 504,000.00 | 0.00 | P 42,000.00 |

The estimated aggregate compensation of the members of the Board of Directors and Executive Officers as a group for the year 2020 is P 3,978,000.

| <i>Name and Principal Position</i> | <i>Year</i> | | <i>Salary</i> | <i>Bonus</i> | <i>Other Annual Compensation (13th Mo.)</i> |
|--|-------------|---|---------------|--------------|--|
| ELVIRA A. TING President & CEO | 2019 | P | 840,000.00 | 0.00 | P 70,000.00 |
| JAMES B. PALIT-ANG VP – Business Dev’t (Vismin) | 2019 | P | 624,000.00 | 0.00 | P 52,000.00 |
| GLENN GERALD PANTIG Chief Operating Officer | 2019 | P | 1,200,000.00 | 0.00 | P 100,000.00 |
| JOCELYN A. VALLE Finance Head | 2019 | P | 504,000.00 | 0.00 | P 42,000.00 |
| FERDINAND P. HALILI Operations Head | 2019 | P | 504,000.00 | 0.00 | P 42,000.00 |

The aggregate compensation of the members of the Board of Directors and Executive Officers as a group for the year 2019 is P 3,978,000.

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

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

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

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

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

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

Item 7. Independent Public Accountant

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

Rotation of External Auditors

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

The signing partner of our external auditor- DIAZ MURILLO DALUPAN AND COMPANY for 2019 Audited Financial Statements is Mr. Richard Noel M. Ponce. He replaced Ms. Rosemary D. De Mesa who retired in 2019 from Diaz Murillo Dalupan and Company. Ms De Mesa was the signing partner of our Audited Financial Statements for 2018, replacing Jozel Francisco C. Santos, Jr. who was then the signing partner in 2017

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

| (a.) Audit and Audit-Related Fees | YEAR | AMOUNT |
|---|------|---------|
| 1. Audit of Financial Statement | 2018 | 635,425 |
| | 2019 | 655,000 |
| 2. No audit fees for other related services | | |
| (b.) Tax Fees | 2018 | nil |
| (c.) All other Fees | 2019 | nil |

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

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

Item 8. Compensation Plans

No action is proposed to be taken during the stockholders' meeting with regard to any stock options, warrants or rights plan, pension/retirement plan, or any other type of compensation plan.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

There are no matters or actions to be taken up in the meeting with respect to authorization or issuance of securities.

Item 10. Modification or Exchange of Securities

There are no matters or actions to be taken up in the meeting with respect to the modification of any class of the Company's securities or the issuance of authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

Item 11. Financial and Other Information

The audited financial statements as of December 31, 2019, Management Discussion and Analysis, Market Price of Shares and Dividends and other data related to the Company's financial information are attached hereto.

The interim financial statements as of June 30, 2020 and other data related to the Company's financial information are likewise attached hereto.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

There are no matters or actions intended to be taken up in the meeting with respect to mergers, consolidation, acquisition, sale or liquidation of the Company.

Item 13. Acquisition or Disposition of Property

No action is to be taken with respect to any material acquisition or disposition of any property of the Company.

Item 14. Restatement of Accounts

The Company is not taking any action with respect to the restatement of any asset, capital, or surplus account.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

There is no action to be taken with respect to any report of the Company or its directors or officers, except for the approval of the minutes of the previous annual stockholders' meeting of the Company held on October 8, 2019.

1. Minutes of the Previous Annual Stockholders' Meeting

The Minutes of the Annual Stockholders' Meeting held on October 8, 2019 contains the approval of the Minutes of the year 2018 Annual Stockholders' Meeting, the approval of the year 2018 Annual Report and the Audited Financial Statements, the ratification of the acts of the Board of Directors and management during the year 2018, the election of the external auditor, the election of external counsel and the election of the members of the Board of Directors.

The voting results are as follows:

| Agenda | Voting Results | | |
|---|----------------|---------|---------|
| | For | Against | Abstain |
| Call to Order | 100.00% | 0.00% | 0.00% |
| Certification of Notice and Quorum | 100.00% | 0.00% | 0.00% |
| Approval of Minutes of the Previous Stockholders' Meeting | 100.00% | 0.00% | 0.00% |
| Report to the Stockholders for the Year 2018. | 100.00% | 0.00% | 0.00% |
| Ratification of the Acts of the Board and Management | 100.00% | 0.00% | 0.00% |
| Election of Directors for 2019-2020 | 100.00% | 0.00% | 0.00% |
| Elvira A. Ting | 100.00% | 0.00% | 0.00% |
| Dee Hua T. Gatchalian | 100.00% | 0.00% | 0.00% |
| Arthur M. Lopez | 100.00% | 0.00% | 0.00% |
| Renato B. Magadia | 100.00% | 0.00% | 0.00% |
| Sergio R. Ortiz-Luis, Jr. | 100.00% | 0.00% | 0.00% |

| | | | |
|---------------------------------|---------|-------|-------|
| Arthur. R. Ponsaran | 100.00% | 0.00% | 0.00% |
| Richard L. Ricardo | 100.00% | 0.00% | 0.00% |
| Kenneth T. Gatchalian | 100.00% | 0.00% | 0.00% |
| James B. Palit-Ang | 100.00% | 0.00% | 0.00% |
| Byoung Hyun Suh | 100.00% | 0.00% | 0.00% |
| Joaquin P. Obieta | 100.00% | 0.00% | 0.00% |
| Appointment of External Auditor | 100.00% | 0.00% | 0.00% |
| Appointment of External Counsel | 100.00% | 0.00% | 0.00% |
| Adjournment | 100.00% | 0.00% | 0.00% |

The following directors and officers were present during the 2019 ASM:

| | | |
|------------------------------|---|---|
| Mr. Arthur M. Lopez | - | Chairman/Director |
| Mr. Kenneth T. Gatchalian | - | Vice Chairman /Director |
| Ms. Elvira A. Ting | - | President/Director |
| Mr. Richard Ricardo | - | Treasurer/Investor Relations Officer/Director |
| Atty. Arsenio A. Alfiler Jr. | - | Corporate Secretary |
| Atty. Mariel Francisco | - | Asst. Corporate Secretary |
| Mr. Sergio Ortiz-Luiz, Jr. | - | Lead Independent Director |
| Mr. Byoung Y. Suh | - | Chief Audit Executive/Independent Director |
| Mr. James Palit-Ang | - | Chief Risk Officer/Director |
| Ms. Jocelyn A. Valle | - | Compliance Officer |
| Ms. Dee Hua T. Gatchalian | - | Director |
| Mr. Renato B. Magadia | - | Drector |
| Atty. Arthus R. Ponsaran | - | Director |
| Atty. Joaquin P. Obieta | - | Director |

The stockholders who attended the 2019 ASM in person and by proxy represent 813,512,939 common shares, constituting 56.28% of the total outstanding capital stock of the Company as of record date September 16, 2019.

Corporate Governance

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

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

The Company realizes its duty to protect the rights and benefits of shareholders and to place the importance on fair and equal treatment of shareholders. It is the Company's policy to disclose information with respect to business operation with accuracy and transparency, including any issues that could impact the Company's business and the rights in which shareholders and minority shareholders are entitled to, such as shareholders' participation in the shareholders' meeting to exercise their voting rights, the rights to receive dividend, or

the rights to approve a decrease or an increase in capital, etc. The Board has similarly adopted a Corporate Governance Policy to ensure that the rights of its shareholders particularly those that belong to the minority or non-controlling group are respected and protected by adopting the principle of “one-share, one-vote”, likewise by ensuring that all shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights and also by having an effective, secure and efficient voting system, and an effective shareholder voting mechanism to protect minority shareholders against actions of controlling shareholders. The Board also provides all shareholders with the notice and agenda of the Annual Stockholders’ Meeting (ASM) at least twenty (20) days before the meeting.

The Company also paid for registration fees for seminars which the Company’s employees attended for continuing professional education such as Tax Seminar conducted by BIR, Disclosures Seminar by the Philippine Stock Exchange, Mandatory Continuing Legal Education and other seminars related with real estate development.

The Company submitted its Integrated Annual Corporate Governance Report (I-ACGR) on July 28, 2020 covering the year 2019.

As of Sept. 15, 2020, there are no known material deviations from the Company’s Manual of Corporate governance.

Item 16. Matters Not Required to be Submitted

There is no action to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

Item 17. Amendment of Charter, By-Laws & Other Documents

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

In light of the COVID-19 pandemic and to ensure the safety and welfare of our stockholders, the corporation will not amend its by-laws but will comply with the SEC Memorandum Circular No. 6, Series of 2020 on March 12, allowing participation in corporate meetings through teleconferencing, video conferencing and other remote or electronic means of communications, amid the outbreak of the new coronavirus disease, COVID-19

Item 18. Other Proposed Actions

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

1. Approval of Minutes of the previous Stockholders’ meeting
2. Presentation of the Annual Report and Audited Financial Statements for the calendar year 2019
3. Ratification of the acts of the Board of Directors and Management for 2019
4. Election of Members of the Board of Directors.
5. Appointment of External Auditor.
6. Amendment Articles of Incorporation specifically Article FOURTH regarding principal office address of Philippine Estates Corporation from Metro Manila to 35th Floor, One Corporate Center, Doña Julia Vargas Ave. corner Meralco Ave., Ortigas Center, Pasig City, Metro Manila pursuant to SEC Memorandum Circular No. 6 Series of 2014.
7. Other Business.

As of this report, there are no other matters other than stated in the Notice of Annual Meeting of Stockholders, i.e., Authority to Pledge Shares of Stock in Waterfront Manila Premier Development,

Inc., which the Board of Directors intends to present or has reason to believe others will present at the meeting..

Item 19. Voting Procedures

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

- (a) At each meeting of the stockholders, the holders of a majority of the issued outstanding capital stock of the Corporation having voting powers, who are present via remote communication, shall constitute a quorum for the transaction of business, except, where otherwise provided by the Corporation Code.
- (b) Unless otherwise provided by the Corporation Code, each stockholder shall at every meeting of the stockholders be entitled to one vote per person or by proxy, for each share with voting right held by such stockholder. At all meetings of the stockholder, all matters, except in cases where other provisions is made by the Corporation Code, shall be decided by the vote of stockholders representing majority of the issued and outstanding capital stock present via remote communication and entitled to vote thereat, a quorum being present..
- (c) The holders of common stock are entitled to one vote per share, but in connection with the cumulative voting feature applicable to the election of directors, each stockholder is entitled to as many votes as shall equal the number of shares held by such person at the close of business on record date, multiplied by the number of directors to be elected. A stockholder may cast all of such votes for a single nominee or may apportion such votes among any two or more nominees. In all matters included in the agenda, except, the election of directors, the stockholders are entitled to one vote per share. For the election of directors, the counting will be cumulative. The counting of votes will be done by the Corporate Secretary with the assistance of the representatives of the Corporation's independent auditor Diaz, Murillo, Dalupan and Co. and Stock Transfer Agent, Banco de Oro Stock Transfer Agency. All votes attaching to the shares owned by stockholders whose proxies were received by the Corporation will be cast in accordance with the instructions given or authority granted under proxies.

Stockholders are given its opportunity to ask questions or clarifications every action before approval of any matter during meeting.

In compliance with SEC Memorandum Circular No. 6, Series of 2020, due to COVID-19 Global Pandemic, the Board of Directors of Philippine Estates Corporation has decided to conduct the annual stockholders' meeting via remote communication. Stockholders can only participate in the meeting by remote communication. Stockholders as of the Record Date who intend to participate or be represented in the meeting should register for the meeting by notifying the Corporation by email at corpsec.phes2020asm@gmail.com not later than 16 October 2020 (at 5:00P.M.) and shall first submit a copy of proof of identity, ownership and other certification/information for validation purposes and/or duly accomplished proxy instrument for a representative to the virtual meeting, if applicable. Stockholders as of the Record Date who are interested in casting their votes on any of the matters to be presented during the 2020 ASM must cast their votes on or before 23 October 2020 (at 5:00pm).

Votes may be cast only through online casting of votes/proxies on or before 23 October 2020 (at 5:00P.M.). Stockholders whose shareholdings are lodged with the Philippine Central Depository are reminded to secure a certification of your shareholdings from your respective stockbrokers.

Registered stockholders and confirmed proxies will receive the meeting link and password. Only stockholders who notified the Company of their intention to participate in the virtual meeting and have registered themselves or their proxies will be included in the determination of quorum.

We are not soliciting proxies.

Other Notes to Operations and Financials:

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

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

At present, the uncertainty that may have a material impact on sales is the economic situation. The seemingly improving economic situation has already translated into a significant buying mood for the real estate market. Overall, there are no contingencies that may affect future operations of the Company. In such eventuality, the resolution of this is dependent to a large extent, on the efficacy of the fiscal measures and other actions.

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

The Company sees no event that will trigger direct or contingent financial obligation that is material to the Company despite of the effect of pandemic COVID-19.

- **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.**

The Board of Directors of the Company has authorized its management to pledge the Company's 12,500,000 shares of stock in Waterfront Manila Premier Development, Inc. to a consortium of banks, including but not limited to, China Development Bank and the Industrial and Commercial Bank of China, as security for loans the banks have extended to China First Highway Engineering Corporation.

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

There were no material commitments for capital expenditures except those arising from the ordinary project development requirements. These are well within the regular cash flow budget coming from internally generated funds and short-term borrowings from banks and other financial institutions.

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

Due to Global Pandemic, there were significant material impacts on sales.

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

The Company 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 Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

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

Projects are launched at no particular time of the year depending on several factors such as completion of plans and permits and appropriate timing in terms of market condition and strategies. Development and construction works follow.

- **Internal and external sources of liquidity**

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

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

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

Attention: Atty Mariel Francisco

CERTIFICATION

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hands this ___ day of _____, 2020 in the City of Pasig.


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

Subscribed and sworn to before me this SEP 16 2020 at Pasig City, affiant exhibiting to me her IBP ID with Roll No. 57260.

Notary Public

Doc. No. 340 ;
Page No. 69 ;
Book No. 4 ;
Series of 2020.


ATTY. LADY MAE A. CLEMENTE-DIATA
PTR No. 6449194; 1-15-2020
IBP Membership No. 094898; RSM
Roll No. 69675
MCLE Compliance No. VII - 0000167, 7-2-2019
Appointment No. 77 (2019-2020)
Julia Vargas Avenue corner Meralco Avenue
Ortigas Center, Pasig City

CERTIFICATE OF QUALIFICATION OF INDEPENDENT DIRECTORS

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

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

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

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

IN ATTESTATION OF THE ABOVE, this Certification is signed on this ___ day of _____ 2020, at Pasig City, Metro Manila.


ATTY. MARIEL L. FRANCISCO
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me, this SEP 16 2020 day of _____ 2020, at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 224-150-060) with her photograph appearing thereon.

Doc. No. 337;
Page No. 69;
Book No. 4;
Series of 2020.


ATTY. LADY MAE A. CLEMENTE-DIATA
PTR No. 6449194; 1-15-2020
IBP Membership No. 094898; RSM
Roll No. 69675
MCLE Compliance No. VII - 0000167, 7-2-2019
Appointment No. 77 (2019-2020)
Julia Vargas Avenue corner Meralco Avenue
Ortigas Center, Pasig City

Annex A-1

CERTIFICATION OF INDEPENDENT DIRECTOR

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

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

| COMPANY/ORGANIZATION | POSITION/RELATIONSHIP | PERIOD OF SERVICE |
|--|--------------------------|-------------------|
| Acesite (Phils.) Hotel Corporation | Director | 2013-present |
| Alliance Global, Inc. | Vice Chairman | 2007-present |
| Phil. Chamber of Commerce & Industry | Honorary Chair/Treasurer | 2008-present |
| Phil. Exporters Confederations, Inc. | President/CEO | 1991-present |
| Waterfront Philippines, Inc. | Director | 2013-present |
| Int'l. Chamber of Commerce of the Phils. | Founding Director | present |
| Manila Exposition Complex, Inc. (WTC) | Director | present |
| The Wellex Group | Director | present |

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

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

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

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

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

Code of Corporate Governance and other SEC issuances.

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

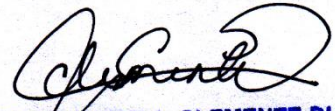
Done this _____ of _____, 2020 at _____.


SERGIO R. ORTIZ-LUIS, SR.

Affiant

SUBSCRIBED AND SWORN to before me, this ___ day of **SEP 16, 2020** 2020, at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 107-846-762-000) with her photograph appearing thereon.

Doc. No. 343 ;
Page No. 70 ;
Book No. 9 ;
Series of 2020.


ATTY. LADY MAE A. CLEMENTE-DIATA
PTR No. 6449194; 1-15-2020
IBP Membership No. 094898; RSM
Roll No. 69675
MCLE Compliance No. VII - 0000167, 7-2-2019
Appointment No. 77 (2019-2020)
Julia Vargas Avenue corner Meralco Avenue
Origas Center, Pasig City

CERTIFICATE OF QUALIFICATION OF INDEPENDENT DIRECTORS

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

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

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

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

IN ATTESTATION OF THE ABOVE, this Certification is signed on this ___ day of _____ 2020, at Pasig City, Metro Manila.


ATTY. MARIEL L. FRANCISCO
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me, this ___ day of SEP 16 2020 2020, at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 224-150-060) with her photograph appearing thereon.

Doc. No. 339;
Page No. 69;
Book No. 4;
Series of 2020.


ATTY. LADY MAE A. CLEMENTE-DIATA
PTR No. 6449194; 1-15-2020
IBP Membership No. 094898; RSM
Roll No. 69675
MCLE Compliance No. VII - 0000167, 7-2-2019
Appointment No. 77 (2019-2020)
Julia Vargas Avenue corner Meralco Avenue
Ortigas Center, Pasig City

Republic of the Philippines)
City of)S.S.

AFFIDAVIT OF UNDERTAKING

I, **MARIEL L. FRANCISCO**, of legal age, with office address at Corporate Counsels Philippines Law Offices, Unit 3104 31st Floor Antel Global Corporate Building, No. 3 Julia Vargas Avenue, Ortigas Center, Pasig City, Philippines, after having duly sworn to in accordance with law, do hereby depose and state:

That I am the Assistant Corporate Secretary of Philippine Estates Corporation;

That Mr. Byoung Hyun Suh, Independent Director, cannot submit his Certificate of Independent Director as he is out of the country but he sent the said Certificate with his electronic signature.

That, the Company undertakes to take utmost diligence to submit the notarized Certificate as soon as Mr. Suh arrived in the country.

That I attest to the truthfulness of this undertaking.


MARIEL L. FRANCISCO
Affiant

SUBSCRIBED AND SWORN TO before me this SEP 16 2020 day of 2020 at Pasig City, Philippines, affiant exhibited to me her TIN with No. 224-150-060.

Docs. No. 346 ;
Page No. 30 ;
Book No. 4 ;
Series of 2020.


ATTY. LADY MAE A. CLEMENTE-DIATA
PTR No. 6449194; 1-15-2020
IBP Membership No. 094898; RSM
Roll No. 69675
MCLE Compliance No. VII - 0000167, 7-2-2019
Appointment No. 77 (2019-2020)
Julia Vargas Avenue corner Meralco Avenue
Ortigas Center, Pasig City

Annex A-2

CERTIFICATION OF INDEPENDENT DIRECTOR

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

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

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

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

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

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

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

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

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

Done this ____ of _____, 2020 at _____.


BYOUNG HYUN SUH
Affiant

SUBSCRIBED AND SWORN to before me, this ____ day of _____ 2020, at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 122-963-522-000) with her photograph appearing thereon.

Doc. No. _____
Page No. _____
Book No. _____
Series of 2020.

CERTIFICATE OF QUALIFICATION OF INDEPENDENT DIRECTORS

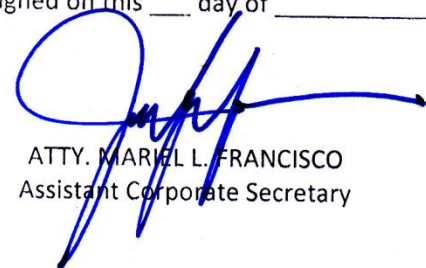
I, ATTY. MARIEL L. FRANCISCO, being the duly elected Assistant Corporate Secretary of Philippine Estates Corporation (hereinafter the "Corporation"), a corporation duly organized and existing under and by virtue of Philippine law, with principal office address at the 35th Floor, One Corporate Center,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

1. Atty. RENATO C. FRANCISCO, is a nominee for the position of Independent Director of Philippine Estates Corporation;

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

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

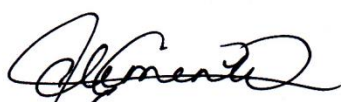
IN ATTESTATION OF THE ABOVE, this Certification is signed on this ___ day of _____ 2020, at Pasig City, Metro Manila.



ATTY. MARIEL L. FRANCISCO
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me, this ___ day of SEP 16 2020, at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 224-150-060) with her photograph appearing thereon.

Doc. No. 338;
Page No. 62;
Book No. 4;
Series of 2020.



ATTY. LADY MAE A. CLEMENTE-DIATA
PTR No. 6449194; 1-15-2020
IBP Membership No. 094898; RSM
Roli No. 69675
MCLE Compliance No. VII - 0000167, 7-2-2019
Appointment No. 77 (2019-2020)
Julia Vargas Avenue corner Meralco Avenue
Ortigas Center, Pasig City

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **RENATO C. FRANCISCO.**, Filipino, of legal age and a resident of No.8 Sparrow Street, New Marikina Subdivision, Marikina City, after having been duly sworn to in accordance with law do hereby declare that:

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

| COMPANY/ORGANIZATION | POSITION/RELATIONSHIP | PERIOD OF SERVICE |
|------------------------------------|-----------------------|-------------------|
| Forum Pacific, Inc. | Independent Director | Present |
| Acesite (Phils.) Hotel Corporation | Director | Present |

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

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

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

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

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

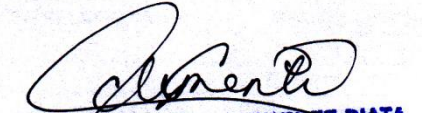
Done this _____ of _____, 2020 at _____.


RENATO S. FRANCISCO
Affiant

SEP 16 2020

SUBSCRIBED AND SWORN to before me, this ___ day of _____ 2020, at Pasig City, Metro Manila, affiant having exhibited to me her government identification (TIN 138-641-391-000) with her photograph appearing thereon.

Doc. No. 344 ;
Page No. 30 ;
Book No. 4 ;
Series of 2020.


ATTY. LADY MAE A. CLEMENTE-DIATA
PTR No. 6449194; 1-15-2020
IBP Membership No. 094898; RSM
Rc# No. 69675
MCLE Compliance No. VII - 0000167, 7-2-2019
Appointment No. 77 (2019-2020)
Julia Vargas Avenue corner Meralco Avenue
Ortigas Center, Pasig City

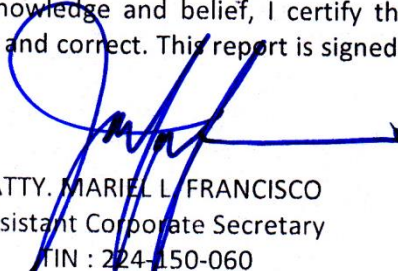
UNDERTAKING

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

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

PART III

After reasonable inquiry and to the best knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on _____, 2020.


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

Subscribed and sworn to before me this SEP 16 2020 at Pasig City, affiant exhibiting to me her IBP ID with Roll No. 57260.

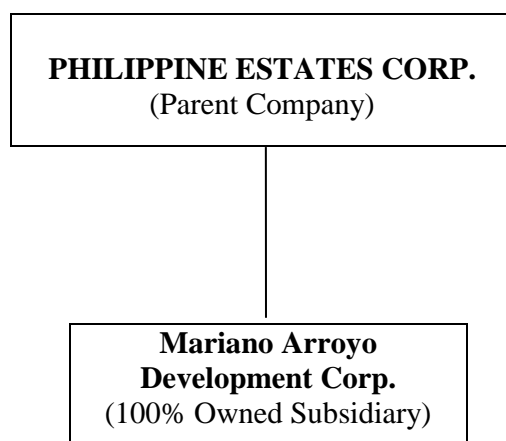
Doc. No. 342 ;
Page No. 70 ;
Book No. 4 ;
Series of 2020.

Notary Public

ATTY. LADY MAE A. CLEMENTE-DIAZ
PTR No. 6449194; 1-15-2020
IBP Membership No. 094898; RSM
Roll No. 69675
MCLE Compliance No. VII - 0000167, 7-2-2019
Appointment No. 77 (2019-2020)
Julia Vargas Avenue corner Meralco Avenue
Ortigas Center, Pasig City

MANAGEMENT'S REPORT

(Note: Audited Financial Statement and Interim Financial Statement is hereto attached as Annex "A" and made as an integral part hereof.) Conglomerate map showing the relationship between parent company and its subsidiary



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of Compliance

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

Basis of Preparation

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

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 subsidiary 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 loses 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 |
| <hr/> | |
| 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) |
| <hr/> | |
| <u>Lease liabilities as at January 1, 2019</u> | <u>₱2,805,171</u> |

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.

Audited Financial Statements and Interim Financial Statements

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

Reconciliation of retained earnings available for dividend declaration.

PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY

Consolidated Statements of Changes in Equity as of December 31, 2019

| | |
|---|--------------------------------|
| CAPITAL STOCK - | PhP 1,445,549,830 |
| DEFICIT | |
| At beginning of year | (361,127,504) |
| Net income(loss) for the year | <u>(1,066,381)</u> |
| At end of year | (362,193,885) |
| RE-MEASUREMENT LOSS ON RETIREMENT BENEFITS | |
| At beginning of year | 3,369,577 |
| Re-measurement loss for the year | <u>(1,450,309)</u> |
| At end of year | 1,919,268 |
| | <u>PHP1,085,275,213</u> |

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

Financial Soundness Indicators in two comparative periods.

| <u>INDICATOR</u> | <u>2019</u> | <u>2018</u> |
|--------------------------|-------------|-------------|
| Current Ratio | 3.17:1 | 4.09:1 |
| Debt-to-Equity Ratio | 0.47:1 | 0.49:1 |
| Asset-to-Equity Ratio | 1.47:1 | 1.49:1 |
| 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% |

NATURE AND SCOPE OF BUSINESS OF THE REGISTRANT

The Company was incorporated on May 30, 1983 as “Philippine Cocoa Estates Corporation” under Securities and Exchange Commission (SEC) Registration No. 11297, with an authorized capital stock of only P1 million. Its primary purpose was to engage in all phases of agriculture. On February 29, 1984 its authorized capital stock was increased to P140 million. In November of that same year, the Company became a publicly listed company.

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

In 1996, The Wellex Group, Inc. gained majority control of the Company and revamped its management. The new management opted for a change in business focus from agriculture to real estate, with the corporate vision of becoming a world-class real estate developer utilizing state-of-the-art design and technology to build projects with the highest quality and value.

To align the Company to this new corporate vision, management applied with the SEC for approval to carry out certain strategic corporate changes. Thus, on May 16, 1996, the SEC approved the proposed changes, namely: (a.) The change in the primary purpose clause from agriculture to the business of holding and developing real estate; (b.) The change in the corporate name to reflect the new business focus; (c.) The removal of the Class “A” and Class “B” classification of the Company’s shares; and (d.) The change in the par value of the shares from PhP10.00 to PhP1.00 per share.

Towards achieving its corporate vision, the Company filed an application to increase its authorized capital stock from PhP300 Million to PhP5 Billion. Out of this increase of PhP4.7 Billion, the amount of PhP1,194,333,800.00 was subscribed and paid up by five (5) corporate investors. The principal part of the subscription was paid up by way of transfers to the Company of forty five (45) parcels of land valued at PhP1,161,833,800.00, while a smaller portion of the subscription, amounting to PhP32,500,000.00 was paid through conversion of debt into equity. The increase in authorized capital stock was approved by the SEC on March 26, 1997.

(2) **Business Issuer:**

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

COMPLETED PROJECTS:

1. *Pearl of the Orient Tower.*

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

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

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

3. *Pacific Grand Villas Phase 1.*

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

4. *Pacific Grand Villas Phase II.*

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

5. *Pacific Grand Villas Phase III.*

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

6. *Chateaux Geneva.*

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

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

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

8. *Pacific Grand Townhomes Phase 1*

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 only 43 units of elegantly designed houses. This stylish community is proximate to private and public institutions, recreational areas, schools, resorts, business and trade centers. It is right across the site where Wellford Residences – Mactan will rise.

ONGOING / CURRENT PROJECTS:

• ***Costa Smeralda***

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

• ***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.

• ***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 was able to obtain HLURB's License to Sell early this 2020. The project has started land development and has commenced its selling activities.

PROJECT IN THE PIPELINE

1) *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 to 73 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.

2) *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.

3) *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.

4) *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.

FINANCIAL AND OTHER INFORMATION:

a.) Information Required:

- (1) The Audited Financial Statement as of 31 December 2019 are attached hereto. The notes to Financial Statements, as well as Statement of Management Responsibility, and schedules required under Part IV(C) OF RULE 68 is included in the Annual Report (Form 17-A) **on Annex 1.**

Also attached hereto are the Interim Financial Statements as of June 30, 2020 being also required under PART IV(C) OF RULE 68 (SEC Form 17-Q).

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

Second Quarter of 2020

The Performance of the Company

Due to the lingering effects of the pandemic brought about by Covid-19, for the 2Q 2020, the Company was only able to post consolidated net sales of ₱ 27.78M thus registering a decrease of ₱20.32M or -42.25% compared to the Sales for the same period in 2019 of ₱ 48.10M

The Company maintained its Financial Position as its total assets stood at P1.64B. Current ratio registered at 2.90:1. The Current Ratio is indicative of positive liquidity condition. Current assets reached P0.98B and current liabilities amounted only to P0.34B. This gives a Debt –to- equity ratio of 0.52:1 Hereunder are the significant or material changes in the Balance Sheet accounts as of June 30, 2020.

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

- a. Cash – the increase of 202.10% was basically attributable to improved collection on sales. Proceeds from working capital loans from Luzon Development Bank added to the increase in the Company's coffers.
- b. Real Estates Inventories – the increase of 8.07% was due to additional work completion on ongoing project development in Wellford Homes - Malolos.
- c. Prepayments and Other Assets – the decrease of -6.36% was due to application of input VAT against output VAT payable for the period.
- d. Accounts Payable and Other Liabilities – the increase of 33.22% was due to increase in payable to suppliers on credit terms.
- e. Borrowings - the increase of 25.17% was the result of loan availed from Luzon Development Bank.
- f. Customers Deposits – the increase of 39.91% was due to an increase in reservation fees for the quarter.
- g. Retention payable and refundable bonds – the increase of 8.17% pertains to the 10% retained payment of each progress billing of contractors to be paid until full completion of the contract of on-going projects.

Comparative Top Key Performance Indicators of the Company:

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

- a. Sales – The Company gauges its performance by determining the Return on Sales (net income after tax over the net sales). It indicates net profitability of each peso of sales.
- b. Accounts Receivable – The Company assesses the efficiency in collecting receivables and in managing 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 Liabilities. Working Capital turnover is calculated by dividing Sales over Average Net Working Capital.

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

| <u>INDICATOR</u> | <u>O2 2020</u> | <u>O2 2019</u> |
|--------------------------|-----------------------|-----------------------|
| Return on sales | 8.37% | 9.99% |
| Past due ratio | 14.00% | 6.00% |
| Gross Profit rate | 62.46% | 59.07% |
| Working Capital Turnover | 0.04 | 0.05 |

Results of Operation for 2019 vs 2018

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.

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 of 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 of 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

Comparative Top Key Performance Indicators of the Company:

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

- a. Sales – The Company gauge its performance by determining the return on sales (net income after tax over the net sales). It indicates net profitability of each peso of sales.
- b. Accounts Receivable – The Company assesses the efficiency in collecting receivables and in managing of credit by determining the past due ratio thru the aging of receivables.
- c. Gross Profit Margin – Measures effectiveness of pricing and control of project development cost. This is derived by dividing gross profit over net sales.
- d. Working Capital – The Company’s ability to meet obligations is measured by determining current assets over current obligations. Working capital turnover is calculated by dividing Sales over Ave. Net Working Capital.
- e. Variance Analysis – Another tool that measures efficiency on how the actual sales were attained via a vis forecasted sales.

| <u>INDICATOR</u> | <u>2019</u> | <u>2018</u> |
|--------------------------|--------------------|--------------------|
| 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% |

Results of Operation for 2018 vs 2017

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

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

Financial Condition:

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

- n. Cash – the increase of 38.46% was basically attributable to improved collection on sales, and proceeds from loans.
- o. Current Trade Receivables – the increase of 27.85% was due to new sales recorded during the year.
- p. Non-Current Trade and Other Receivables – the decrease of 65.11% was due to improved collections on sales and restatement of old accounts.
- q. 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.
- r. Accounts Payable and Other Liabilities – the increase of 11.48% was due to increase in payable to suppliers on credit terms.
- s. 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.
- t. 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.
- u. Advances to/from Related Parties – the increase of 5.00% was due to advances to related parties.
- v. Deferred Tax Liabilities – the increase of 10.53% was due to excess of financial realized gross profit over taxable realized gross profit.
- w. Retirement Benefits Obligation - the increase 29.64% was due to the expense recognized for the year based on valuation for 2018.

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% |

Results of Operation for 2017 vs 2016

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.

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.

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% |

Acknowledgement Notice Re: PHILIPPINE ESTATES CORPORATION_SEC Form 17-Q_13August2020

Inbox



ICTD Submission <ictdsubmission@sec.gov.ph>

Wed, Aug 12,
10:06 PM

to me

Dear Customer,

SUCCESSFULLY ACCEPTED
(subject to verification and review of the quality of the attached document)

Thank you.

SEC ICTD.

COVER SHEET

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

| |
|-------------------------|
| JOCELYN A. VALLE |
|-------------------------|

Contact Person

| |
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| 8637-3112 |
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Contact Telephone No.

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Amended Articles Number/Section

Total Amount of Borrowings

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Total No. of Stockholders

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| PHP 102,288,138 |
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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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SEC Number **112978**

File Number _____

PHILIPPINE ESTATES CORPORATION

Company's Full Name

35TH Flr. One Corporate Centre, Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City

Company's Address

8637-3112

Telephone Number

DECEMBER 31

Fiscal Year Ending (Month and day)

SEC-FORM 17-O

Form Type

N.A.

Amendment Designation(If applicable)

June 30, 2020

Period Ended Date

N.A.

Secondary License Type and File Number

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2020**
2. Commission identification number **112978**
3. BIR Tax Identification No. **000-263-366**

PHILIPPINE ESTATES CORPORATION

4. Exact name of registrant as specified in its charter

Metro Manila, Philippines

5. Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: SEC Use Only

35th Flr., One Corporate Centre, Julia Vargas cor. Meralco Ave., Ortigas Center, Pasig City

7. Address of issuer's principal office

(632) 8637-3112

8. Issuer's telephone number, including area code
9. Former name, former address and former fiscal year, if changed since last report **NA**
10. Securities registered pursuant to Section 4 and 8 of the RSA: Common shares **5,000,000,000** with par Value of P1.00 per share

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

Amount of Debt Outstanding: P 102,288,138 (as per Financial Statements)

11. Are any or all of the securities listed on the Philippine Stock Exchange?
Yes No

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

PHILIPPINE STOCK EXCHANGE COMMON SHARES

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The Quarterly Financial Statements of the Company for the period ending June 30, 2020 are incorporated herein by reference and attached as an integral part of this Quarterly Report.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with 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.

Earnings per Share

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

Financial Information

- a. The management maintains the same system of accounting policies and methods of computation in the Interim Financial Statements.
- b. There were no changes in accounting estimates of amounts reported in interim periods of current financial year or even in prior financial years
- c. There were no issuances, repurchases and repayments of equity securities
- d. There were no changes in the composition of the issuer during the interim period i.e. Business Combinations, Acquisitions, or Disposal of Subsidiaries and Long-term Investments, Restructuring and Discontinuing operations
- e. There were no dividends declared and paid on the Company's Common Equity.
- f. There have been no material events that happened subsequent to the interim period that needs disclosure herein.
- g. The Company is contingently liable for existing lawsuits and claims from third parties arising from the ordinary course of business. Management believes that the ultimate liability for the abovementioned lawsuits and claims, if any, would not be material in relation to the Financial Position and Operating Results of the company's operations.

Item 2. Management’s Discussion and Analysis of Financial Condition and Result of Operations.

1. Plan of Operation

Due to the lingering effects of the pandemic brought about by Covid-19, completion of the site development works for Phase 4 of Pacific Grand Villas in Cebu, Wellford Homes Jaro – Parcel A in Iloilo, and a portion of Phase 1 of Wellford Homes Malolos in Bulacan, have been slightly delayed, although the Company will still deliver the said items before the end of 2020.

The Company is still in the midst of completing numerous houses for turnover 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. Construction of these units were temporarily halted due to government imposed lockdowns and quarantine measures in its fight against the spread of Covid-19.

Because of the strict rules that have now been imposed before private construction works can be undertaken, the Company has increased its efforts to search for more qualified contractors who can comply with the said rules and who have ready access to the necessary supplies and materials. This is in line with the need to award additional houses for construction for several buyers who have already qualified to have their units built. Furthermore, in order to assist the marketing efforts in Wellford Homes Malolos, the Company aims to construct the townhouse model units by December 2020, aside from the landscaped main entrance.

In the same light, start of construction of the first tower of Wellford Residences – Mactan has been deferred to the 2nd quarter of 2021. The first tower, also referred to as Madison, will have 80 condominium units and is expected to be completed by the 3rd quarter 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. Further to this, the Company is currently finalizing the plans for 2 new residential house and lot projects, one in Cebu and the other in Iloilo. The aim of the Company is to be able to start the acquisition of the necessary permits for the two projects before December 2020.

To support its liquidity, the Company is offering attractive and flexible payment terms to its buyers and has also accredited new contractors that can deliver 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.

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

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

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

- ***Pacific Grand Townhomes Phase 1***

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 only 43 units of elegantly designed houses. This stylish community is proximate to private and

public institutions, recreational areas, schools, resorts, business and trade centers. It is right across the site where Wellford Residences – Mactan will rise.

- ***Costa Smeralda.***

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

- ***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

- ***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 was able to obtain HLURB's License to Sell early this year. The project has started land development and has commenced its selling activities.

2. Financial Position

The Company maintained its Financial Position as its total assets stood at P1.64B. Current ratio registered at 2.90:1. Current assets reached P0.98B while current liabilities amounted only to P0.34B. Debt –to- equity ratio stood at 0.52:1 The Balance Sheet shows that accounts are indicators of positive liquidity condition. Hereunder are the significant or material changes in the Balance Sheet accounts as of June 30, 2020.

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

- h. Cash – the increase of 202.10% was basically attributable to improved collection on sales and proceeds of loans from Luzon Development Bank.
- i. Real Estates Inventories – the increase of 8.07% was due to additional cost incurred for project development for Wellford Homes - Malolos.
- j. Prepayments and Other Assets – the decrease of -6.36% was due to application of input VAT against output VAT payable for the period.

- k. Accounts Payable and Other Liabilities – the increase of 33.22% was due to increase in payable to suppliers on credit terms.
- l. Borrowings - the increase of 25.17% was the result of loan availed from Luzon Development Bank.
- m. Customers Deposits – the increase of 39.91% was due to an increase in reservation fees for the quarter.
- n. Retention payable and refundable bonds – the increase of 8.17% pertains to the 10% retained payment of each progress billing of contractors to be paid until full completion of the contract of on-going projects.

3. Result of Operations

For the 2Q 2020, the Company was able to post consolidated net sales of ₱ 27.78M thus registering a decreased by ₱20.32M or -42.25% compared to the Sales for the same period in 2019 of ₱ 48.10M.

Comparative Top Key Performance Indicators of the Company:

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

- a. Sales – The Company gauges its performance by determining the Return on Sales (net income after tax over the net sales). It indicates net profitability of each peso of sales.
- b.Accounts Receivable – The Company assesses the efficiency in collecting receivables and in managing 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 Liabilities. Working Capital turnover is calculated by dividing Sales over Average Net Working Capital.

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

| <u>INDICATOR</u> | <u>Q2 2020</u> | <u>Q2 2019</u> |
|--------------------------|-----------------------|-----------------------|
| Return on sales | 8.37% | 9.99% |
| Past due ratio | 14.00% | 6.00% |
| Gross Profit rate | 62.46% | 59.07% |
| Working Capital Turnover | 0.04 | 0.05 |

4. Other Notes to 2Q 2020 Operations and Financials:

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

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

At present, the uncertainty that may have a material impact on sales is the economic situation. The seemingly improving economic situation has already translated into a significant buying mood for the real estate market. Overall, there are no contingencies that may affect future operations of the Company. In such eventuality, the resolution of this is dependent to a large extent, on the efficacy of the fiscal measures and other actions.

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

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

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

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

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

There were no material commitments for capital expenditures except those arising from the ordinary project development requirements. These are well within the regular cash flow budget coming from internally generated funds and short-term borrowings from banks and other financial institutions.

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

Projects are launched at no particular time of the year depending on several factors such as completion of plans and permits and appropriate timing in terms of market condition and strategies. Development and construction works follow.

- **Internal and external sources of liquidity**

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

Compliance with Leading Practice on Corporate Governance

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

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

- Organizational and Procedural Controls
- Independent Audit Mechanism
- Regular Reporting to Audit Committee

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

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

PART II – OTHER INFORMATION

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

| PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY | | |
|--|----------------------|----------------------|
| STATEMENTS OF FINANCIAL POSITION | | |
| 30-Jun-20 | | |
| (With Comparative Figures for 2019) | | |
| | Interim F/S | Audited F/S |
| | 30-Jun-20 | 31-Dec-19 |
| ASSETS | | |
| Current Assets | | |
| Cash | 39,285,983 | 13,004,316 |
| Trade and other receivables (net) | 499,480,787 | 508,997,744 |
| Real estate inventories, net | 430,361,167 | 398,215,592 |
| Prepayments and other current assets | 16,243,568 | 17,347,713 |
| | 985,371,506 | 937,565,365 |
| Non-current Assets | | |
| Trade and other receivables (net of current portion) | 42,148,929 | 41,752,876 |
| Advances to related parties (net) | 552,232,803 | 552,589,640 |
| Investment property | 1,072,016 | 1,072,016 |
| Financial Asset at FVOCI | 12,500,000 | 12,500,000 |
| Property and equipment, net | 40,093,355 | 41,583,149 |
| Deferred tax assets | 4,399,617 | 4,399,617 |
| Other noncurrent assets | 7,075,080 | 7,125,080 |
| | 659,521,799 | 661,022,378 |
| TOTAL ASSETS | 1,644,893,305 | 1,598,587,743 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other liabilities | 116,697,894 | 87,596,142 |
| Borrowings | 82,330,292 | 65,773,920 |
| Lease liabilities | 686,947 | 686,947 |
| Deferred gross profit | 136,504,824 | 138,573,511 |
| Customers' deposits | 4,059,786 | 2,901,678 |
| | 340,279,744 | 295,532,198 |
| Non-current Liabilities | | |
| Retention payable and refundable bonds | 25,590,972 | 23,659,157 |
| Borrowings (net of current portion) | 19,957,846 | 19,957,846 |
| Lease liabilities (net of current portion) | 1,209,496 | 1,209,496 |
| Advances from related parties | 104,023,305 | 104,024,033 |
| Retirement benefits obligation | 10,027,135 | 10,027,135 |
| Deferred Tax Liabilities | 58,902,665 | 58,902,665 |
| | 219,711,419 | 217,780,332 |
| Total liabilities | 559,991,163 | 513,312,530 |
| Equity | | |
| Capital Stock | 1,445,549,830 | 1,445,549,830 |
| Deficit | -360,647,688 | -360,274,617 |
| Total equity | 1,084,902,142 | 1,085,275,213 |
| TOTAL LIABILITIES AND EQUITY | 1,644,893,305 | 1,598,587,743 |

| PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY | | | |
|--|----------------------|---------------------|----------------------|
| STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY | | | |
| For the Six-Month Period ended June 30, 2020 | | | |
| (With Comparative Figures for 2019) | | | |
| | CAPITAL STOCK | DEFICIT | TOTAL |
| Balance at December 31, 2018 | 1,445,549,829 | -357,757,928 | 1,087,791,901 |
| Net Income (Loss) as of June 30, 2019 | | 5,507,215 | 5,507,215 |
| Balance at June 30, 2019 | 1,445,549,829 | -352,250,713 | 1,093,299,116 |
| Balance at December 31, 2019 | 1,445,549,830 | -360,274,617 | 1,085,275,213 |
| Net Income (Loss) as of June 30, 2020 | | -373,071 | -373,071 |
| Balance at June 30, 2020 | 1,445,549,830 | -360,647,688 | 1,084,902,142 |

| PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY | | |
|--|--------------------|--------------------|
| STATEMENT OF CASH FLOW | | |
| June 30, 2020 | | |
| (With Comparative Figures for 2019) | | |
| | Jun-20 | Jun-19 |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net Income (Loss) | -373,071 | 5,507,215 |
| Adjustment to reconcile net income (loss) to net cash provided by operating activities | | |
| Depreciation and amortization | 540,624 | 554,592 |
| Amortization of deferred charges | | |
| Gain on sale of property and equipment | | |
| Acquisition of property | | |
| Provision for doubtful accounts | | |
| Decrease (increase) in assets: | | |
| Receivables | 9,477,742 | 21,622,121 |
| Inventories | 4,082,634 | -84,855,276 |
| Intangible Assets | | |
| Prepaid Expenses | 1,715,584 | -3,175,741 |
| Other Assets | -561,439 | -2,025,801 |
| Increase (decrease) in liabilities | | |
| Accounts payable | 29,462,989 | 17,772,579 |
| Accrued expenses | -813,162 | 82,630,063 |
| Deferred Income | -938,392 | -9,400,586 |
| Net cash provided by (used) in operating activities | 42,593,508 | 28,629,166 |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Additions to raw land inventory | | |
| Additions to equipment | -181,124 | -122,408 |
| Deductions from Real estate held for sale | | |
| Additions to project development cost | -16,129,990 | -10,781,174 |
| Proceeds from insurance claims | | |
| Proceeds from sale of property and equipment | | |
| Net cash provided by (used) in investing activities | -16,311,114 | -10,903,582 |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Additional deposits on subscription | | |
| Net decrease in due to affiliates | -728 | |
| Net increase in due to stockholders | | |
| Payment of long-term debts | | |
| Payment of short-term borrowings | | |
| Proceeds from short-term borrowings | | |
| Net cash provided by (used) in financing activities | -728 | 0 |
| NET INCREASE (DECREASE) IN CASH | 26,281,667 | 17,725,584 |
| ADJUSTMENT OF PRIOR PERIODS | | |
| CASH, BEGINNING | 13,004,316 | 18,536,645 |
| CASH, END | 39,285,983 | 36,262,229 |

PROPERTY AND EQUIPMENT (net)

Property and equipment as of June 30, 2020 is as follows:

| PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY | | | | |
|--|--|-------------------------------------|---|--------------------|
| PROPERTY, PLANT AND EQUIPMENT | | | | |
| As of June 30, 2020 | | | | |
| | Leasehold Improvements Right-of-use Asset | Transportation Equipment | Building & Machineries Furniture & Fixtures Office Equipment | TOTAL |
| Cost | | | | |
| At January 1, 2020 | 4,892,851 | 6,319,053 | 98,964,209 | 110,176,112 |
| Additions | -0 | 7,272 | 173,851 | 181,124 |
| Disposals | - | - | - | 0 |
| June 30, 2020 | 4,892,851 | 6,326,325 | 99,138,060 | 110,357,236 |
| Accumulated Depreciation | | | | |
| At January 1, 2020 | 3,140,540 | 5,679,167 | 59,773,257 | 68,592,963 |
| Additions | -0 | 211,396 | 1,459,521 | 1,670,917 |
| Disposals | - | - | - | - |
| June 30, 2020 | 3,140,540 | 5,890,563 | 61,232,778 | 70,263,881 |
| Net Book Value | | | | |
| At January 1, 2020 | 1,752,311 | 639,886 | 39,190,952 | 41,583,149 |
| June 30, 2020 | 1,752,311 | 435,762 | 37,905,282 | 40,093,355 |

BUSINESS SEGMENT INFORMATION

The business segment report of the company as of June 30, 2020 is as follows:

| PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY | | | | | |
|--|--------------------|------------------|--------------------|--------------------|----------------------|
| SEGMENT REPORT | | | | | |
| June 30, 2020 | | | | | |
| | HEAD OFFICE | DAVAO | CEBU | ILOILO | CONSOLIDATED |
| Sales | 0 | 0 | 13,782,633 | 32,119,275 | 45,901,908 |
| Realized Gross Profit | 0 | 0 | 5,624,944 | 18,346,847 | 23,971,791 |
| Other Income | 230,420 | 0 | 304,850 | 1,294,886 | 1,830,156 |
| Finance Cost | 5,401,813 | 0 | 0 | 7,985 | 5,409,799 |
| Depreciation and Amortization | 1,485,872 | 0 | 9,913 | 175,132 | 1,670,917 |
| Other Operating Expenses | 10,450,203 | 51,423 | 3,132,191 | 5,460,486 | 19,094,303 |
| SEGMENT ASSETS | 572,562,647 | 6,519,472 | 730,940,490 | 334,870,696 | 1,644,893,305 |
| SEGMENT LIABILITIES | 305,259,474 | 508,377 | 142,812,341 | 111,410,970 | 559,991,163 |



**AGING OF RECEIVABLES
AS OF JUNE 2020**

| PROJECT | RECEIVABLE BALANCE | NOT YET DUE | CURRENT | PAST DUE | | | | | | TOTAL |
|---|-----------------------|--------------------|----------|------------------|------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| | | | | 1-30 | 31-60 | 61-90 | 91-120 | 121-180 | >180 | |
| PACIFIC GRAND VILLAS PHASE 1B | 16,342,840 | 10,640,997 | 0 | 2,692,258 | 51,682 | 93,347 | 748,785 | 120,560 | 1,995,211 | 5,701,843 |
| LOT ONLY | 3,407,566 | 406,571 | 0 | 2,648,689 | 51,682 | 17,037 | 16,711 | 33,422 | 233,454 | 3,000,995 |
| HOUSE AND LOT | 12,935,274 | 10,234,427 | 0 | 43,569 | 0 | 76,310 | 732,074 | 87,138 | 1,761,757 | 2,700,848 |
| PACIFIC GRAND VILLAS PHASE 1C | 18,110,034 | 15,577,352 | 0 | 168,969 | 76,476 | 160,737 | 160,477 | 812,859 | 1,153,163 | 2,532,681 |
| LOT ONLY | 1,074,896 | 872,883 | 0 | 8,493 | 8,347 | 260 | 0 | 148,618 | 36,296 | 202,014 |
| HOUSE AND LOT | 17,035,137 | 14,704,470 | 0 | 160,477 | 68,129 | 160,477 | 160,477 | 664,241 | 1,116,868 | 2,330,668 |
| PACIFIC GRAND VILLAS PHASE 4A | 55,338,584 | 52,004,660 | 0 | 387,985 | 206,391 | 331,660 | 439,610 | 522,841 | 1,445,437 | 3,333,924 |
| LOT ONLY | 16,805,442 | 15,347,237 | 0 | 131,715 | 131,715 | 106,512 | 214,536 | 136,839 | 736,887 | 1,458,205 |
| HOUSE AND LOT | 38,533,142 | 36,657,423 | 0 | 256,270 | 74,676 | 225,148 | 225,073 | 386,002 | 708,550 | 1,875,719 |
| PACIFIC GRAND VILLAS PHASE 4B | 17,541,323 | 16,772,177 | 0 | 85,479 | 45,216 | 33,010 | 32,986 | 65,905 | 506,549 | 769,146 |
| LOT ONLY | 53,377 | 52,937 | 0 | 0 | 0 | 0 | 0 | 0 | 440 | 440 |
| HOUSE AND LOT | 17,487,946 | 16,719,240 | 0 | 85,479 | 45,216 | 33,010 | 32,986 | 65,905 | 506,109 | 768,706 |
| PACIFIC GRAND TOWNHOMES | 62,021,090 | 59,134,769 | 0 | 261,022 | 243,905 | 213,854 | 208,115 | 400,516 | 1,558,909 | 2,886,321 |
| TOWNHOUSE | 62,021,090 | 59,134,769 | 0 | 261,022 | 243,905 | 213,854 | 208,115 | 400,516 | 1,558,909 | 2,886,321 |
| WELLFORD RESIDENCES MADISON BLDG | 58,210,924 | 57,331,144 | 0 | 146,727 | 68,396 | 128,495 | 94,550 | 146,540 | 295,072 | 879,780 |
| UNITS | 58,210,924 | 57,331,144 | 0 | 146,727 | 68,396 | 128,495 | 94,550 | 146,540 | 295,072 | 879,780 |
| CEBU TOTAL | 227,564,795 | 211,461,099 | 0 | 3,742,441 | 692,065 | 961,103 | 1,684,523 | 2,069,222 | 6,954,342 | 16,103,696 |
| <i>* Past Due Ratio</i> | 100.00% | 92.92% | | 1.64% | 0.30% | 0.42% | 0.74% | 0.91% | 3.06% | 7.08% |
| CHATEAUX GENEVA | 2,807,530 | 2,680,032 | 0 | 10,618 | 0 | 3,623 | 3,623 | 7,246 | 102,388 | 127,498 |
| LOT ONLY | 2,759,903 | 2,680,032 | 0 | 10,618 | 0 | 3,623 | 3,623 | 7,246 | 54,760 | 79,870 |
| HOUSE AND LOT | 47,628 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 47,628 | 47,628 |
| COSTA SMERALDA | 177,365,088 | 151,980,292 | 0 | 4,680,399 | 3,393,249 | 9,237,005 | 683,082 | 2,155,718 | 5,235,342 | 25,384,795 |
| LOT ONLY | 50,901,815 | 44,134,828 | 0 | 924,165 | 379,893 | 1,149,315 | 250,239 | 1,259,863 | 2,803,512 | 6,766,987 |
| HOUSE AND LOT | 126,463,273 | 107,845,464 | 0 | 3,756,234 | 3,013,356 | 8,087,690 | 432,843 | 895,856 | 2,431,830 | 18,617,808 |
| WELLFORD HOMES | 85,007,061 | 68,205,591 | 0 | 529,779 | 1,817,229 | 2,117,952 | 1,778,271 | 8,396,096 | 2,162,143 | 16,801,470 |
| DUPLEX | 85,007,061 | 68,205,591 | 0 | 529,779 | 1,817,229 | 2,117,952 | 1,778,271 | 8,396,096 | 2,162,143 | 16,801,470 |
| ILOILO TOTAL | 265,179,679 | 222,865,915 | 0 | 5,220,797 | 5,210,478 | 11,358,580 | 2,464,975 | 10,559,060 | 7,499,873 | 42,313,764 |
| <i>* Past Due Ratio</i> | 100.00% | 84.04% | 0.00% | 1.97% | 1.96% | 4.28% | 0.93% | 3.98% | 2.83% | 15.96% |
| PLASTIC CITY INDUSTRIAL PARK | 4,996,736 | | | | | | | | 4,996,736 | 4,996,736 |
| EMBASSY POINTE | 8,613,339 | | | | | | | | 8,613,339 | 8,613,339 |
| METRO MANILA | 13,610,075 | 0 | | 0 | 0 | 0 | 0 | 0 | 13,610,075 | 13,610,075 |
| GRAND TOTAL | 506,354,549 | 434,327,015 | 0 | 8,963,238 | 5,902,543 | 12,319,683 | 4,149,498 | 12,628,282 | 28,064,290 | 72,027,535 |
| <i>* Past Due Ratio</i> | 100% | 86% | 0% | 2% | 1% | 2% | 1% | 2% | 6% | 14% |

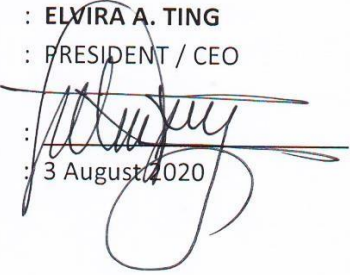
SIGNATURES

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

Issuer : **ELVIRA A. TING**
Title : PRESIDENT / CEO

Signature :

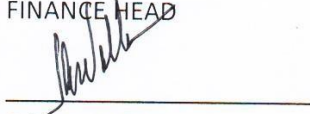
Date :


3 August 2020

Principal Financial Accounting Officer Controller : **JOCELYN A. VALLE**
Title : FINANCE HEAD

Signature :

Date :


3 August 2020

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| | | | | | | | | | |
|---|---|---|---|---|---|--|--|--|--|
| 1 | 1 | 2 | 9 | 7 | 8 | | | | |
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Company Name

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| P | H | I | L | I | P | P | I | N | E | E | S | T | A | T | E | S | C | O | R | P | O | R | A | T | I | O | N | | |
| A | N | D | S | U | B | S | I | D | I | A | R | Y | | | | | | | | | | | | | | | | | |
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Principal Office (No./Street/Barangay/City/Town)Province)

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|--|--|--|--|--|
| 3 | 5 | T | H | F | L | O | O | R | O | N | E | C | O | R | P | O | R | A | T | E | | | | | | | | | |
| C | E | N | T | E | R | , | D | O | Ñ | A | J | U | L | I | A | V | A | R | G | A | S | A | V | E | | | | | |
| C | O | R | . | M | E | R | A | L | C | O | A | V | E | , | O | R | T | I | G | A | S | | | | | | | | |
| C | E | N | T | E | R | , | P | A | S | I | G | C | I | T | Y | | | | | | | | | | | | | | |

Form Type

| | | | |
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| A | A | F | S |
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Department requiring the report

| | | | |
|---|---|---|---|
| C | R | M | D |
|---|---|---|---|

Secondary License Type, If Applicable

| | |
|---|---|
| N | A |
|---|---|

COMPANY INFORMATION

| | | |
|--|---|--|
| <p style="font-size: small; margin: 0;">Company's Email Address</p> <div style="border: 1px solid black; padding: 2px;">phes_finance@yahoo.com</div> | <p style="font-size: small; margin: 0;">Company's Telephone Number/s</p> <div style="border: 1px solid black; padding: 2px; text-align: center;">637-3112</div> | <p style="font-size: small; margin: 0;">Mobile Number</p> <div style="border: 1px solid black; padding: 2px; text-align: center;">NA</div> |
| <p style="font-size: small; margin: 0;">No. of Stockholders</p> <div style="border: 1px solid black; padding: 2px; text-align: center;">706</div> | <p style="font-size: small; margin: 0;">Annual Meeting Month/Day</p> <div style="border: 1px solid black; padding: 2px; text-align: center;">October/08</div> | <p style="font-size: small; margin: 0;">Fiscal Year Month/Day</p> <div style="border: 1px solid black; padding: 2px; text-align: center;">Dec-31</div> |

CONTACT PERSON INFORMATION

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

| | | | |
|---|--|---|--|
| <p style="font-size: small; margin: 0;">Name of Contact Person</p> <div style="border: 1px solid black; padding: 2px;">Jocelyn A. Valle</div> | <p style="font-size: small; margin: 0;">Email Address</p> <div style="border: 1px solid black; padding: 2px;">phes_finance@yahoo.com</div> | <p style="font-size: small; margin: 0;">Telephone Number/s</p> <div style="border: 1px solid black; padding: 2px; text-align: center;">637-3112</div> | <p style="font-size: small; margin: 0;">Mobile Number</p> <div style="border: 1px solid black; padding: 2px; text-align: center;">NA</div> |
|---|--|---|--|

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 hereof with information and complete contact details of the new contact person designated.



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.

Handwritten signature of Arthur M. Lopez
ARTHUR M. LOPEZ
Chairman of the Board
Handwritten signature of Elvira A. Ting
ELVIRA A. TING
President, CEO

Handwritten signature of Richard L. Ricardo
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. 76
BOOK NO. 13
SERIES OF WVD

ATTY. JOSE FLORO P. CRISOLOGO
Notary Public
Until December 31, 2020
Adm. Matter No. 19-176 (2019-2021)
PTR No. 1270000-01-1-1-2019 Q.C.
IBF License No. 127000000
Roll No. 48462
MCLE VI-0017202 valid until 1-14-2022
Tin No. 711-479-610-000
Add: 5 General de Santos Homes Hills
Orgy. Sta. Cruz, Pasig/Malibon C.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.

Global Reach, Global Quality

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Cebu Office : Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Philippines • Phone: +63(32) 415 8108 - 10 / Fax: +63(32) 232 8029
Davao Office : 3rd Floor Building B Plaza De Luisa, Ramon Magsaysay Avenue, Davao City 8000 Philippines • Phone/Fax: +63(82) 222 6636
Palawan Office : 2F MRC Building, Pineda Road, Brgy. San Pedro, Puerto Princesa City, Palawan 5300 Philippines • Phone +63(48) 716 1580
Website : www.dmdcpa.com.ph

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 | P 13,004,316 | P 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 | P 1,598,587,743 | P 1,622,724,552 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other liabilities - note 12 | P 87,596,142 | P 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 | P 1,598,587,743 | P 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.)