

SEC Number: 031-050

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

**STA. LUCIA LAND, INC. AND SUBSIDIARIES**

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(Company's Full Name)

Penthouse Building 3, Sta. Lucia East Grand Mall,  
Marcos Highway Cor. Imelda Ave., Cainta Rizal

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(Company Address)

(632) 8681-7332

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(Telephone Number)

**September 30, 2019**

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(Quarter Ended)

**3rd Quarter Report – SEC Form 17-Q**

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(Form Type)

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(Amendments)

**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 **September 30, 2019**

2. Commission identification number: **31050**

3. BIR Tax Identification No.: **000-152-291-000**

**STA. LUCIA LAND, INC. AND SUBSIDIARIES**

4. Exact name of issuer as specified in its charter

**Republic of the Philippines**

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

6. Industry Classification Code:  (SEC Use Only)

**Penthouse, Bldg. III, Sta. Lucia East Grand Mall, Marcos Highway cor. Imelda Ave., Cainta, Rizal 1900**

7. Address of issuer's principal office Postal Code

**(02) 8681-7332**

8. Issuer's telephone number, including area code

9. 

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Former name, former address and former fiscal year, if changed since last report

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

Title of each class	Number of shares of common Stock outstanding
<u>Common</u>	<u>8,196,450,000</u>

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

**Yes [x] No [ ]**

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

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12. Indicate by checkmark whether the registrant:

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

**Yes [x] No [ ]**

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

**Yes [x] No [ ]**

## TABLE OF CONTENTS

### PART I: FINANCIAL INFORMATION

#### Item 1. Financial Statements

- Consolidated Statements of Financial Position as of September 30, 2019 and December 31, 2018
- Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2019 and September 30, 2018 and December 31, 2018
- Consolidated Statements of Comprehensive Income for the quarter ended September 30, 2019 and September 30, 2018
- Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2019 and September 30, 2018
- Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and September 30, 2018
- Notes to Financial Statements
  - Corporate Information
  - Summary of Accounting Policies
  - Aging of Receivables
  - Segment Information
  - Financial Instruments

#### Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

- Result of Operations for the nine months ended September 30, 2019
- Financial Condition
- Key Performance Indicators
- Material Changes – Balance Sheet (September 30, 2019 versus December 31, 2018)
- Material Changes – Income Statement (September 30, 2019 versus September 30, 2018)

### PART II: OTHER INFORMATION

#### Item 3. 3<sup>rd</sup> Quarter of 2019 Developments

#### Item 4. Other notes to Operations and Financials as of September 30, 2019

### FINANCIAL RATIOS

### SIGNATURES

## PART I - FINANCIAL INFORMATION

### ITEM 1: FINANCIAL STATEMENTS

#### STA. LUCIA LAND, INC. AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2019 and December 31, 2018

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	₱833,891,565	₱1,064,532,966
Receivables	1,844,363,100	1,874,020,117
Contract assets	1,096,386,774	701,474,368
Real estate inventories	20,065,657,903	18,303,658,167
Other current assets	6,593,570,589	5,204,059,201
Total Current Assets	30,433,869,931	27,147,744,819
<b>Noncurrent Assets</b>		
Installment contracts receivables - net of current portion	510,723,876	494,776,775
Contract assets - net of current portion	839,925,539	673,086,938
Investment properties	5,179,535,330	5,154,483,562
Property and equipment	42,738,437	44,535,128
Financial assets at fair value through other comprehensive income (FVOCI)	866,188,932	985,036,600
Other noncurrent assets	191,105,526	216,496,836
Total Noncurrent Assets	7,630,217,640	7,568,415,839
	₱38,064,087,571	₱34,716,160,658
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts and other payables	₱3,632,039,023	₱3,990,826,478
Short-term debt	3,127,852,630	3,608,000,000
Contract liabilities	2,497,951,294	2,017,661,692
Income tax payable	30,660,059	19,894,432
Total Current Liabilities	9,288,503,006	9,636,382,602
<b>Noncurrent Liabilities</b>		
Long-term debt	11,474,189,868	9,998,775,240
Contract liabilities - net of current portion	584,492,783	45,409,032
Pension liabilities	7,164,282	5,496,160
Deferred tax liabilities - net	984,521,745	575,790,597
Total Noncurrent Liabilities	13,050,368,678	10,625,471,029
Total Liabilities	22,338,871,684	20,261,853,631
<b>Equity</b>		
Capital stock	10,796,450,000	10,796,450,000
Additional paid-in capital	330,004,284	330,004,284
Retained earnings	5,833,172,792	4,402,362,924
Treasury shares	(1,640,000,000)	(1,640,000,000)
Net unrealized gain on fair value of financial assets at FVOCI	409,433,184	568,768,194
Remeasurement losses on pension liabilities	(3,844,373)	(3,278,375)
Total Equity	15,725,215,887	14,454,307,027
	₱38,064,087,571	₱34,716,160,658

**STA. LUCIA LAND, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the Nine Month period ended September 30, 2019 and September 30, 2018 and December 31, 2018

	September 30, 2019	September 30, 2018	December 31, 2018
<b>REVENUE</b>			
Real estate sales	₱4,433,373,220	₱1,966,089,184	₱2,428,307,857
Rental income	638,876,798	675,973,733	858,758,442
Commission income	203,169,114	202,405,474	181,286,064
Interest income	147,650,316	97,805,120	300,973,297
Dividend income	5,662,941	–	7,157,683
Others	178,980,899	219,071,778	255,736,621
	<b>5,607,713,288</b>	<b>3,161,345,289</b>	<b>4,032,219,964</b>
<b>COSTS OF SALES AND SERVICES</b>			
Cost of real estate sales	1,224,491,146	638,093,110	959,025,588
Cost of rental income	376,123,695	402,747,883	553,974,130
	<b>1,600,614,841</b>	<b>1,040,840,993</b>	<b>1,512,999,718</b>
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>			
Commissions	602,720,214	277,626,738	324,666,305
Representation	52,908,896	13,355,521	17,987,405
Taxes, licenses and fees	68,038,609	64,231,852	70,826,085
Salaries and wages and other benefits	47,279,576	40,695,413	65,093,880
Advertising	63,782,409	84,739,584	59,715,755
Repairs and maintenance	25,887,410	3,454,502	33,631,046
Utilities	13,822,925	5,244,429	7,476,177
Professional fees	52,663,762	56,231,821	21,077,509
Depreciation and amortization	12,924,244	13,269,121	16,950,967
Expected credit loss	–	–	1,393,944
Transportation, travel, office supplies and miscellaneous	63,700,287	40,730,703	51,579,006
	<b>1,003,728,332</b>	<b>599,579,684</b>	<b>670,398,079</b>
<b>INTEREST EXPENSE</b>	<b>728,092,628</b>	<b>474,822,873</b>	<b>706,707,500</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>2,275,277,487</b>	<b>1,046,101,739</b>	<b>1,142,114,667</b>
<b>PROVISION FOR INCOME TAX</b>	<b>644,796,546</b>	<b>309,344,706</b>	<b>76,935,383</b>
<b>NET INCOME</b>	<b>1,630,480,941</b>	<b>736,757,033</b>	<b>1,065,179,284</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>			
Unrealized gains on fair value of available-for-sale financial assets	(159,335,010)	(49,231,510)	37,007,331
Unrealized gains on fair value of financial assets at FVOCI	–	–	–
Remeasurement gains (losses) on pension liabilities - net of tax	–	–	(3,064,700)
	<b>(159,335,010)</b>	<b>(49,231,510)</b>	<b>33,942,631</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱1,471,145,931</b>	<b>₱687,525,523</b>	<b>₱1,099,121,915</b>
<b>Basic/Diluted Earnings Per Share</b>	<b>₱0.20</b>	<b>₱0.08</b>	<b>₱0.13</b>

**STA. LUCIA LAND, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the quarter ended September 30, 2019 and September 30, 2018

	<b>July-September 2019(Unaudited)</b>	<b>July-September 2018(Unaudited)</b>
<b>REVENUE</b>		
Real estate sales	<b>₱1,862,746,217</b>	₱631,395,002
Rental income	<b>209,618,629</b>	194,462,773
Interest income	<b>(16,379,929)</b>	33,208,540
Commission Income	<b>(18,150,319)</b>	196,176,591
Dividend income	<b>—</b>	—
Others	<b>73,814,491</b>	79,433,966
	<b>2,111,649,089</b>	1,134,676,872
<b>COSTS AND EXPENSES</b>		
Cost of real estate	<b>350,921,590</b>	174,443,676
Cost of rental income	<b>104,008,119</b>	133,849,014
Interest expense	<b>240,123,576</b>	180,358,557
Depreciation and amortization	<b>3,649,054</b>	4,485,115
Commissions	<b>193,213,706</b>	160,661,578
Advertising	<b>30,696,006</b>	52,508,219
Taxes, licenses and fees	<b>27,302,856</b>	36,920,316
Salaries and wages	<b>11,133,428</b>	19,408,078
Professional fees	<b>43,199,819</b>	21,070,786
Representation	<b>10,337,878</b>	5,502,269
Utilities	<b>1,440,197</b>	1,314,953
Repairs and maintenance	<b>1,832,939</b>	1,791,862
Miscellaneous	<b>27,022,639</b>	21,928,133
	<b>1,044,881,807</b>	814,242,556
<b>INCOME BEFORE INCOME TAX</b>	<b>1,066,767,282</b>	320,434,316
<b>PROVISION FOR INCOME TAX</b>	<b>320,030,253</b>	91,648,581
<b>NET INCOME</b>	<b>746,737,029</b>	228,785,735
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(10,082,045)</b>	42,247,811
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱736,654,984</b>	₱271,033,546

**STA. LUCIA LAND, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the nine months ended September 30, 2019 and September 30, 2018

	<b>September 30, 2019</b>	September 30, 2018
<b>CAPITAL STOCK</b>		
Common shares - ₱1 par value		
Authorized - 16,000,000,000 shares		
Issued and outstanding – 10,796,450,000 shares	<b>₱10,796,450,000</b>	₱10,796,450,000
	<b>10,796,450,000</b>	10,796,450,000
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>330,004,284</b>	330,004,284
<b>TREASURY SHARES</b>	<b>(1,640,000,000)</b>	(740,000,000)
<b>RETAINED EARNINGS</b>		
Balance at beginning of year	<b>4,202,691,851</b>	3,461,949,860
Net income	<b>1,630,480,941</b>	736,757,033
Balance at end of period	<b>5,833,172,792</b>	4,198,706,893
<b>UNREALIZED GAIN ON FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS</b>	<b>409,433,184</b>	412,532,821
<b>REMEASUREMENT GAIN (LOSS) ON PENSION LIABILITIES- NET OF TAX</b>	<b>(3,844,373)</b>	(213,675)
	<b>₱15,725,215,887</b>	₱14,997,480,323

**STA. LUCIA LAND, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the nine months ended September 30, 2019 and September 30, 2018

	<b>September 30, 2019</b>	September 30, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱ 2,275,277,487</b>	₱1,046,101,739
Adjustments for:		
Depreciation and amortization expense	<b>109,705,181</b>	114,997,326
Interest expense	<b>756,945,347</b>	542,747,113
Dividend income	<b>(5,662,941)</b>	
Interest income	<b>(147,650,316)</b>	(97,805,120)
Operating income before changes in working capital	<b>2,988,614,758</b>	1,606,041,058
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	<b>(491,204,565)</b>	(272,154,163)
Real estate inventories	<b>(1,993,038,778)</b>	(2,162,681,760)
Due from related parties	<b>(56,836,526)</b>	(56,836,526)
Prepayment and other current assets	<b>(1,212,808,817)</b>	(1,903,495,602)
Increase (decrease) in:		
Accounts and other payables	<b>(340,753,832)</b>	1,112,804,038,
Customers' deposits	<b>1,064,782,385</b>	579,020,748
Net cash generated from (used in) operations	<b>(41,245,375)</b>	(1,097,302,207)
Interest paid	<b>(760,582,515)</b>	(560,462,292)
Interest received	<b>147,650,316</b>	97,805,120
Income taxes paid	<b>(145,000,459)</b>	(182,366,669)
Net cash provided by (used in) operating activities	<b>(799,178,033)</b>	(1,742,326,048)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals of (additions to):		
Property and equipment	<b>(11,127,553)</b>	(2,163,741)
Investment properties	<b>(121,832,705)</b>	-
Other noncurrent assets	<b>(25,391,310)</b>	(14,043,783)
Net cash used in investing activities	<b>(158,351,568)</b>	(16,207,524)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans	<b>(5,155,800,000)</b>	(5,477,000,000)
Payment of loans	<b>5,882,688,200</b>	6,983,000,000
Net cash provided by financing activities	<b>726,888,200</b>	1,506,000,000
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(230,641,401)</b>	(252,533,572)
<b>CASH AT BEGINNING OF YEAR</b>	<b>1,064,532,966</b>	626,239,307
<b>CASH AT END OF PERIOD</b>	<b>₱833,891,565</b>	₱373,705,735



# STA. LUCIA LAND, INC. AND SUBSIDIARIES

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

Sta. Lucia Land, Inc. (the Parent Company) is a publicly-listed company incorporated in the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 6, 1966 under the name Zipporah Mining and Industrial Corporation to engage in mining. On August 14, 1996, the Parent Company's Articles of Incorporation was amended to effect the following: (a) changing the corporate name to Zipporah Realty Holdings, Inc., and (b) transferring the original primary purpose to secondary purpose from being a mining firm to a real estate company, the primary purpose of which is to acquire by purchase, lease, donation, and to own, use, improve, develop and hold for investment, real estate of all kinds, improve, manage or dispose of buildings, houses, apartments and other structures of whatever kind, together with their appurtenances. On July 16, 2007, the Parent Company changed its corporate name from Zipporah Realty Holdings, Inc. to Sta. Lucia Land, Inc.

The end of the corporate life of the Parent Company is on December 5, 2016. On June 16, 2016, the SEC approved the extension of the Parent Company's life to another 50 years up to December 5, 2066.

The registered office address and principal place of business of the Parent Company and its subsidiaries (collectively referred to as the Group) is at Penthouse Bldg. 3, Sta. Lucia East Grand Mall, Marcos Highway corner Imelda Avenue, Cainta, Rizal.

The Group is 83.28% owned by Sta. Lucia Realty and Development Inc. (SLRDI or the Ultimate Parent Company).

On July 8, 2014, the Parent Company and the Ultimate Parent Company executed a deed of assignment of shares of stock wherein the parties agreed as follows:

1. The previous assignment by the Ultimate Parent Company of Saddle and Clubs Leisure Park is rescinded.
2. The Ultimate Parent Company transfers 3,000 million shares of the Parent Company in favor of the latter as full payment for the ₱1,801.11 million advances to the former.

In 2014, 2,250 million shares covering ₱900.00 million of advances were issued back by SLRDI to the Parent Company and formed part of the Parent Company's treasury shares. This decreased the outstanding shares of the Parent Company from 10,796.45 million in 2013 to 8,546.45 million in 2014.

On September 30, 2014, the lease agreement on Sta. Lucia East Grand Mall (Mall) between the Parent Company and Sta. Lucia East Commercial Corporation (SLECC), an affiliate, was terminated by both parties. Effective October 1, 2014, the existing lease agreements over the Mall spaces were directly between the Parent Company and the tenants. Prior to September 30, 2014, the Parent Company charges rental fee to SLECC, an amount equivalent to 90% of SLECC's net income excluding real property tax. SLECC charges management fee of 7% of the gross rental revenue from mall operations starting October 1, 2014 since SLECC still manages the mall operations, despite the change in lease arrangements.

On December 22, 2015, the Parent Company reissued 400 million treasury shares which increased the outstanding shares to 8,946.45 million in 2015.

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## 2. Summary of Significant Accounting Policies

### Basis of Preparation

The accompanying interim condensed consolidated financial statements of the Group are prepared using the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) and available-for-sale (AFS) financial assets that have been measured at fair value. The interim condensed consolidated financial statements are presented in Philippine Peso (₱), which is also the Parent Company's functional currency and all values are rounded to nearest Philippine peso except when otherwise indicated.

The interim condensed consolidated financial statements provide comparative information in respect of the previous period.

### Statement of Compliance

The interim condensed consolidated financial statements of the Group for the nine months ended September 30, 2019 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2018, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), and include the availment of the relief granted by the Securities and Exchange Commission (SEC) under Memorandum Circular Nos. 14-2018 and 3-2019. PFRSs include PAS and Interpretations issued by Philippine Interpretations Committee (PIC).

The interim condensed consolidated financial statements of the Group have been prepared for inclusion in the offering circular in relation to a planned capital-raising activity.

### Basis of Consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries.

A subsidiary is an entity which the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group 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
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other similar events. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expense and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a 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. Any investment retained is recognized at fair value.

The interim condensed consolidated financial statements include the financial statements of the Parent Company and the following wholly owned subsidiaries. The voting rights held by the Group in these subsidiaries are in proportion of their ownership interest.

	<u>% of Ownership</u>
Sta. Lucia Homes, Inc. (SLHI)	100.00%
Santalucia Ventures, Inc. (SVI)	100.00%

#### Adoption of New and Amended Accounting Standards and Interpretation

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2018, except for the adoption of the following new and amended PFRSs which became effective January 1, 2019.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. As required by PAS 34, the nature and effect of these changes are disclosed below.

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining whether an Arrangement contains a Lease*, Standard Interpretations Committee (SIC) -15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Since the Group is the lessor on its contracts with other parties, adoption of this standard has no significant financial impact on its interim condensed consolidated financial statements but may apply for future transactions.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at FVTOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the Solely Payments of Principal and Interest or SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

- Amendments to PAS 28, *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 to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

Since the Group does not have such long-term interests in its associate and joint venture, the amendments did not have an impact on its interim condensed consolidated financial statements.

- Philippine Interpretation on IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances
- An entity must determine whether to consider each uncertain tax treatment separately or together with one (1) or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of September 30, 2019 and December 31, 2018.

- March 2019 IFRIC Agenda Decision on Over Time Transfer of Constructed Good (PAS 23, *Borrowing Costs*)

In March 2019, the IFRS Interpretations Committee (the Committee) issued IFRIC Update summarizing the decisions reached by the Committee in its public meetings. The March 2019 IFRIC Update includes the Committee's Agenda Decision on the capitalization of borrowing cost on over time transfer of constructed goods. The IFRIC Agenda Decision clarified whether borrowing costs may be capitalized in relation to the construction of a residential multi-unit real estate development (building) which are sold to customers prior to start of construction or completion of the development.

Applying paragraph 8 of PAS 23, *Borrowing Cost*, an entity capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Paragraph 5 of PAS 23 defines a qualifying asset as 'an asset that necessarily takes a substantial period of time to get ready for its intended use or sale'. Under the March 2019 IFRIC Update, the Committee clarified that the related assets that might be recognized in the real estate company's financial statements (i.e., installment contract receivable, contract asset, or inventory) will not qualify as a qualifying asset and the corresponding borrowing cost may no longer be capitalized.

The adoption of the above Agenda Decision will result in a change in accounting policy which will have to be accounted for under PAS 8, *Accounting Policies, Changes in Accounting Estimates, and Errors*, i.e., retrospectively, together with the corresponding required quantitative disclosures. The Group is currently assessing the impact of adopting this amendment as it needs sufficient time to implement changes in its accounting policy.

- Amendments to PAS 23, *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.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

The amendments do not have a material effect on the Group's consolidated financial statements since the Group's current practice is in line with these amendments.

- *Annual Improvements to PFRSs 2015-2017 Cycle*
- *Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- *Amendments to PAS 12, 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 recognizes the income tax consequences of dividends in profit or loss, other comprehensive income (OCI) or equity according to where the entity originally recognized those past transactions or events. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

#### Significant Accounting, Judgments, Estimates and Assumptions

There were no changes in the significant judgments, estimates and assumptions that affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes from December 31, 2018.

#### Cash and cash equivalent

Cash includes cash on hand and in banks. Cash in bank earns interest at the prevailing bank deposit rate. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from date of placement and are subject to insignificant risk of changes in value.

#### Fair Value Measurement

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

liability takes place either:

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

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

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

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

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

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

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

#### *“Day 1” difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss under interest income, unless it qualifies for recognition as some other type of asset or liability.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

### Financial Instruments - initial recognition and subsequent measurement effective January 1, 2018

#### Financial Instruments

##### *Date of recognition*

The Group recognizes financial assets and liabilities in the consolidated statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell the asset.

### Recognition and Measurement of Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### *Financial Assets*

##### *Initial recognition of financial instruments*

Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at FVOCI, or at FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15. Refer to the accounting policies on Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or at FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding. This assessment is referred to as the 'solely payments of principal and interest test' and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

As of September 30, 2019, the Group's financial assets comprise of financial assets at amortized cost and financial assets at FVOCI.

##### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

##### *Financial assets at amortized cost*

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

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



Financial assets at amortized costs are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as interest income in the consolidated statement of comprehensive income.

The Group classified cash and cash equivalents, installment contracts receivables and other receivables as financial assets at amortized cost (see Notes 5, 6 and 27).

*Financial assets at fair value through OCI (debt instruments)*

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group does not have debt instruments at fair value through OCI.

*Financial assets at fair value through OCI (equity instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group's financial assets at fair value through OCI includes investments in quoted and unquoted equity instruments.

Dividends earned on holding these equity instruments are recognized in the consolidated statement of comprehensive income when the Group's right to receive the dividends is established in accordance with PFRS 15, unless the dividends clearly represent recovery of a part of the cost of the investment.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

#### *Reclassification of financial assets*

The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify the following financial assets:

- from amortized cost to FVPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and,
- from FVPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows meet the amortized cost criteria.

Reclassification of financial assets designated as at FVPL at initial recognition is not permitted. A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

#### Impairment of Financial Assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For installment contracts receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a simplified approach for installment contracts receivables and contract assets that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash and cash equivalents, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on lifetime ECL. The Group uses the ratings from the Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### *Determining the stage for impairment*

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

#### *Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

As of September 30, 2019 and December 31, 2018, the Group's other financial liabilities consist of accounts and other payables (excluding statutory liabilities), short-term debt and long-term debt.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments

entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

#### *Loans and borrowings*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

This category generally applies to short-term and long-term debts.

#### *Other financial liabilities*

Subsequent to initial recognition, the Group's financial liabilities are carried at amortized cost. Amortized cost is calculated by taking into account any other discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortization is included as finance costs in the consolidated statement of comprehensive income. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

This category generally applies to the Group's accounts and other payables (excluding statutory liabilities).

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

#### *Offsetting of financial instruments*

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

### Financial Instruments - initial recognition and subsequent measurement prior to January 1, 2018

#### Financial Instruments

##### *Date of recognition*

The Group recognizes a financial asset or a liability on the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of

financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell the asset.

#### *Initial recognition of financial instruments*

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities include transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or loans and receivables. The Group classifies its financial liabilities as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. The financial assets of the Group are of the nature of loans and receivables, while its financial liabilities are of the nature of other financial liabilities. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Group's financial instruments are of the nature of loans and receivables, available-for-sale (AFS) financial assets, and other financial liabilities.

#### *] Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest Income" in the statement of comprehensive income. The losses arising from impairment of such loans and receivables are recognized in the statement of comprehensive income.

Loans and receivables are included in current assets if maturity is within twelve (12) months from the reporting date. Otherwise, these are classified as noncurrent assets.

This accounting policy applies primarily to the Group's trade receivables and noncurrent installment contracts receivables.

#### *AFS financial assets*

AFS financial assets are nonderivative financial assets that are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The

unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as “Unrealized Gains (Losses) on Fair Value of Available-for-Sale Financial Assets” in the other comprehensive income section of the statement of comprehensive income.

When the investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as gain or loss on disposal in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair values of unquoted equity instruments, then instruments are carried at cost less any allowance for impairment losses.

Where the Group holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt investments are reported as interest income using the EIR method.

Dividends earned on holding AFS equity investments are recognized in profit or loss as “Dividend Income” when the right to receive payment has been established.

AFS financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from reporting date.

The Group’s AFS financial assets pertain to both quoted and unquoted equity securities included under “Available-for-Sale Financial Assets” account in the statement of financial position. The Group’s quoted equity securities pertain to investments in casinos and gaming company while unquoted securities pertain to investment in real estate company.

#### *Other financial liabilities*

Other financial liabilities pertain to financial liabilities not classified or designated as financial liabilities at FVPL where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized (redemption is a form of derecognition), as well as through the amortization process.

As of September 30, 2019 and December 31, 2018, the Group’s other financial liabilities consist of accounts and other payables (excluding statutory liabilities), short-term debt and long-term debt.

#### Debt Issuance Costs

Debt issuance costs represent costs arising from fees incurred to obtain loans. Debt issuance costs are deducted against loans payable and are amortized over the terms of the related borrowings using the EIR method.

#### Impairment of Financial Assets

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

‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Loans and receivables*

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. Financial assets carried at amortized costs, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the

asset does not exceed its amortized cost at the reversal date

#### *AFS financial assets carried at fair value*

For AFS financial assets, the Group assesses at each financial reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below their costs. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of comprehensive income - is removed from other comprehensive income and recognized in profit and loss. In case of unquoted AFS, the Group obtains other basis of recoverable value such as the recent net asset value of the investee or forecast of financial performance of the investee. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

#### *AFS financial assets carried at cost*

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### Derecognition of Financial Assets and Liabilities

#### *Financial asset*

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

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

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

#### *Financial liability*

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

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



### Offsetting Financial Instruments

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

### Real Estate Inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation or will be occupied by the Group, is held as inventory and is measured at the lower of cost and net realizable value (NRV). In few cases of buyer defaults, the Group can repossess the properties and held it for sale in the ordinary course of business at the prevailing market price. The repossessed properties are included in the “Real Estate Inventories” account in the consolidated statement of financial position. Costs incurred in bringing the repossessed assets to its marketable state are included in their carrying amounts unless these exceed the recoverable values.

Cost includes the purchase price of land and those costs incurred for the development and improvement of the properties such as amounts paid to contractors for construction, capitalized borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

### Other Current Assets

Other current assets are carried at cost and pertain to resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group. These include prepayments of construction costs and deferred portion of commissions paid to sales or marketing agents that are yet to be charged to the period the related revenue is recognized.

### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and that are not occupied by the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and any impairment in residual value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Construction in progress are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time that the relevant assets are available for their intended use.

Depreciation of investment properties is computed using the straight-line method over the estimated useful lives of the assets and included under “Costs of Rental Income” in the consolidated statement of comprehensive income. The estimated useful lives and the depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful lives of investment properties follow:

	Years
Land improvements	40
Buildings and improvements	40
Machinery and equipment	5 to 10

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment properties when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment properties, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

The Group discloses the fair values of its investment properties in accordance with PAS 40. The Group engages independent valuation specialist to assess the fair values as at December 31, 2018 and 2017. The Group's investment properties consist of land and building pertaining to properties, mall and office properties. These were valued by reference to market-based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property and equipment commences once the assets are put into operational use and is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Office tools and equipment	3 to 5
Transportation equipment	5
Furniture and fixtures	3 to 5
Software	3 to 5

The useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost of the related

accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated and amortized property and equipment are retained in the accounts until they are no longer in use. No further depreciation and amortization is charged against current operations.

#### Interests in Joint Operations

Interests in joint operations represent one or more assets, usually in the form of real estate development, contributed to, or acquired for the purpose of the joint operations and dedicated to the purposes of the joint operations. The assets are used to obtain benefits for the operators. Each operator may take a share of the output from the assets and each bears an agreed share of the expenses incurred. These joint operations do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the operators themselves. Each operator has control over its share of future economic benefits through its share of the jointly operations. Contribution of the Group to the joint operations are included in real estate inventories.

#### Impairment of Nonfinancial Assets

This accounting policy relates to the other current assets, investment properties and property and equipment.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Customers' Deposits (Prior to January 1, 2018)

Customers' deposits represent payment received from customer accounts which have not yet

reached the minimum required percentage for recording real estate sale transaction. When the level of required payment is reached, sales are recognized and these deposits and down payments will be applied against the related receivable.

Under the percentage of completion method of recognizing sales for real estate, when a real estate does not meet the requirements for revenue recognition, the sale is accounted for under the deposit method. Under this method, cash received from customers are recorded under "Customers' Deposits" account in the consolidated statement of financial position. It is also recognized when the cash received from customers is greater than the receivable from customers under percentage of completion. Subsequently, customers' deposits are applied against receivable from customers as a result of the recognition of sales through completion of the project.

### Pension Liabilities

The Group has a funded, noncontributory defined benefit retirement plan covering substantially all of its qualified employees. The Group's pension liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit (PUC) method.

Defined benefit costs comprise the following:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

### Equity

The Group records capital stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds and charged to “Additional Paid-in Capital” (APIC) account. If APIC is not sufficient, the excess is charged against retained earnings.

Retained earnings represent accumulated earnings of the Group less dividends declared. The individual accumulated retained earnings of the subsidiaries are available for dividend declaration when they are declared by the subsidiaries as approved by their respective BOD.

### Treasury Shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in the profit and loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Retained earnings is restricted to payments of dividends to the extent of the cost of treasury shares.

### Revenue Recognition effective January 1, 2018

#### *Revenue from Contract with Customers*

The Group primarily derives its real estate revenue from the sale of vertical and horizontal real estate projects. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the provisioning of water and electricity in its mall retail spaces and office leasing activities, wherein it is acting as agent.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

#### *Real estate sales*

The Group derives its real estate revenue from sale of lots, house and lot and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group’s performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date. This is based on the quarterly project accomplishment report prepared by the management’s project specialists (project development engineers) as approved by the project manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the developer itself.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as installment contracts receivables, under trade receivables, is included in the “contract asset” account in the asset section of the consolidated statement of financial position.

Any excess of collections over the total of recognized installment contracts receivables is included in the “contract liabilities” account in the liabilities section of the consolidated statement of financial position.

#### *Cost of real estate sales*

The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which changes are determined.

In addition, the Group recognizes as an asset only costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

#### *Costs to obtain contract (Commission expense)*

The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the “Selling and administrative expense” account in the consolidated statement of comprehensive income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

#### Contract Balances

##### *Installment Contracts Receivables*

Installment contracts receivables represent the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

##### *Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

##### *Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the

Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Group performs under the contract.

The contract liabilities also include payments received by the Group from the customers for which revenue recognition has not yet commenced.

#### *Contract fulfillment assets*

Contract fulfillment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Group firstly considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable. The Group's contract fulfillment assets pertain to land acquisition costs.

The Group's contract fulfillment assets pertain to land acquisition costs.

#### *Amortization, de-recognition and impairment of contract fulfillment assets and capitalized costs to obtain a contract*

The Group amortizes contract fulfillment assets and capitalized costs to obtain a contract over the expected construction period using percentage of completion following the pattern of real estate revenue recognition. The amortization of contract fulfillment assets and cost to obtain a contract is included within "Cost of real estate sales" and "Selling and administrative expense", respectively.

A contract fulfillment asset or capitalized costs to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that the contract fulfillment asset or capitalized cost to obtain a contract maybe impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific performance indicators

that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

#### *Others*

Other income is derived from processing the registration of properties of buyers, collection from surcharges and penalties for late payments which are recognized when services are rendered.

Other income also includes profit share in hotel operations which is derived from the Group's share in service income, net of operating expenses, from units in a specific property development which is being operated as a hotel by a third party. Income is recognized when earned.

### Revenue Recognition prior to January 1, 2018

#### Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In arrangements where the Group is acting as the principal to its customers, revenue is recognized on a gross basis. However, if the Group is acting as an agent to its customers, only the amount of net commission retained is recognized as revenue. The Group has concluded that it is acting as principal in all of its revenue arrangements except for its commission income where the Group is acting as an agent.

#### *Real estate sales*

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial payment (buyers' equity) and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the percentage-of-completion method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the "Customers' Deposits" account in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Customers' Deposits" account in the consolidated statement of financial position.

For sales transactions with its supplier whereby the Group sells subdivision land and



condominium units in exchange for the delivery of the equivalent value of construction materials or services, the same revenue recognition policy as above is applied, except that buyer's equity is measured based on the fair value of materials and services received to date. For materials and services received to date, pending recognition of sale, these are presented as "Offsetting Payable" under accounts and other payables in the liabilities section of the consolidated statement of financial position until the criteria for revenue recognition are met.

#### *Cost of real estate*

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate inventories sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

#### *Commission expense*

The commission is charged to expense when a substantial portion of the contract price and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

#### *Others*

Other income is derived from processing the registration of properties of buyers, collection from surcharges and penalties for late payments which are recognized as revenue upon collection.

Other income also includes profit share in hotel operations which is derived from the Group's share in service income, net of operating expenses, from units in a specific property development which is being operated as a hotel by a third party. Income is recognized when earned.

#### Other Revenue and Income Recognition

##### *Rental income*

Rental income arising from operating leases on investment properties is recognized in the consolidated statement of comprehensive income as follows:

- Based on certain percentage of net income of operator after adjustments on shared expenses, as provided in the terms of the contract.
- Based on a straight-line basis over the term of the lease plus a certain percentage of sales of the tenants, as provided under the terms of the contract.

##### *Construction income*

Construction income on housing units is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion of costs incurred to date compared to the estimated total cost of the contract.

##### *Interest income*

Interest income is recognized as it accrues using the EIR method.

##### *Commission income*

Commission income on promotions and marketing services is recognized when services are

rendered.

#### *Dividend income*

Revenue is recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

#### Costs and Expenses

Costs and expenses are recognized in the consolidated statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Costs and expenses are recognized in the consolidated statement of comprehensive income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

#### *Cost of rental income*

Cost of rental income is mostly coming from depreciation, utilities and management fees. These are recognized as cost when incurred, except for depreciation which is recognized on a straight-line basis.

#### *Cost of construction*

Cost of construction includes all direct materials, labor costs and incidental costs related to the construction of housing units.

#### *Expenses*

"Selling and administrative expenses" are expenses that are incurred in the course of the ordinary operations of the Group. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents, property and equipment and investment properties. Selling and administrative expenses are costs incurred to sell real estate inventories, which include commissions, advertising and promotions, among others and costs of administering the business.

Expenses are recognized in the consolidated statement of comprehensive income as incurred based on the amounts paid or payable.

#### Borrowing Costs

Interest and other financing costs incurred during the construction period on borrowings used to finance the acquisition and construction of a qualifying asset are capitalized as to the appropriate asset accounts (included in "Real Estate Inventories" account in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate for those coming from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically.

### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

### *Group as lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease income is recognized on a straight-line basis over the lease term in the profit or loss. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

### Income Taxes

#### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### *Input VAT*

The input value-added tax pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services.

### *Output VAT*

Output VAT pertains to the 12% tax due on the local sale of goods or services by the Group. If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Accounts and other payables" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under the "Other current assets" account.

### *Deferred tax*

Deferred tax is provided on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating losses carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from excess MCIT over RCIT credits and unexpired NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are credited to or charged against income for the period.

Deferred tax relating to items recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Basic and Diluted Earnings Per Share

Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends,

stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive options and dilutive convertible preferred shares. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted would decrease the basic EPS, and then such convertible preferred shares would be deemed dilutive.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount. As of December 31, 2018 and 2017, the Group has no potential diluted common shares.

#### Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 22 to the consolidated financial statements.

#### Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated statement of comprehensive income net of any reimbursement.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

#### Events After the Reporting Date

Post year-end events up to date when the consolidated financial statements are authorized for issue that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements, when material.

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### **3. Significant Accounting Judgments and Estimates**

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon

management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

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

### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### *Revenue recognition*

Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and the stage of completion of the project. In determining whether the sales price are collectible, the Group considers that initial and continuing investment of 20% of the net contract price for real estate development and sale would demonstrate the buyer's commitment to pay. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of buyers' equity before allowing revenue recognition.

#### *Distinction between real estate inventories and investment properties*

The Group determines whether a property is classified as investment property or real estate inventories as follows:

- Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Real estate inventories comprises property that is held for sale in the ordinary course of business. Principally, this is residential and industrial property that the Group develops and intends to sell before or on completion of construction.

#### *Operating lease commitments - Group as lessor*

The Group has entered into commercial property leases on its investment properties. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

The Group's operating lease contracts are accounted for as cancellable operating leases. In determining whether a lease contract is cancellable or not, the Group considers, among others, the significance of the penalty, including the economic consequence to the lessee.

#### *Recognizing deferred tax assets*

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

assurance that the Group will generate sufficient future taxable profit to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

#### *Determination of significant influence on an investee company*

If an investor holds, directly or indirectly, less than 20% of the voting power of the investee company, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

Since the Group only has 12.50% ownership interest in Uni-Asia, the Group determined that it does not have control or significant influence.

#### Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Revenue and cost recognition on real estate*

The Group applies the percentage of completion (POC) method in determining real estate revenue and cost. The POC is based on the physical proportion of work and the cost of sales is determined based on the estimated project development costs applied with the respective project's POC.

#### *Estimating allowance for impairment losses on receivables*

The Group maintains allowance for impairment losses at a level based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original EIR. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (e.g., industry, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. The assessment also considers that title of the property passes on to the buyer only when the receivable is fully collected.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

#### *Evaluation of net realizable value of inventories*

Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of

the real estate inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged, slow or non-moving or if their selling prices have declined in comparison to the cost.

*Evaluation of impairment of other non-financial assets (except inventories)*

The Group reviews other current assets, investment properties and property and equipment for impairment in value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the asset's net selling price, except for assets where value in use computation is applied.

The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the asset. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

*Estimating pension costs*

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds in the respective currencies with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

Assumed discount rate is used in the measurement of the present value obligation, service and interest cost components of the pension expense. The mortality rate represents the proportion of current plan members who might demise prior to retirement..

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.



#### 4. Aging of Receivables

As of September 30, 2019(Unaudited)

	Neither Past		Past Due but not Impaired					Total	Impaired	Total
	Due nor	Impaired	1-30 days	31-60 days	61-90 days	91-120 days	>120 days			
Trade	₱2,783,964,426	₱33,309,393	₱30,811,761	₱29,135,934	₱30,124,316	₱40,028,648	₱163,410,052	₱-	₱2,947,374,478	
Nontrade	165,276,233	1,210,202	1,288,072	1,082,950	1,171,872	1,207,382	5,960,478	-	171,236,711	
<b>Total</b>	<b>₱2,949,240,659</b>	<b>₱34,519,595</b>	<b>₱32,099,833</b>	<b>₱30,218,884</b>	<b>₱31,296,188</b>	<b>₱41,200,520</b>	<b>₱169,370,530</b>	<b>₱-</b>	<b>₱3,118,611,189</b>	

As of September 30, 2018(Unaudited)

	Neither Past		Past Due but not Impaired					Total	Impaired	Total
	Due nor	Impaired	1-30 days	31-60 days	61-90 days	91-120 days	>120 days			
Trade	₱ 3,400,905,050	₱ 10,414,255	₱ 10,413,868	₱ 12,173,515	₱ 10,794,106	₱ 42,160,582	₱85,956,326	₱-	₱3,486,861,376	
Nontrade	1,028,734,368	-	-	-	-	-	-	-	1,028,734,368	
<b>Total</b>	<b>₱4,429,639,418</b>	<b>₱10,414,255</b>	<b>₱10,413,868</b>	<b>₱12,173,515</b>	<b>₱10,794,106</b>	<b>₱42,160,582</b>	<b>₱85,956,326</b>	<b>₱-</b>	<b>₱4,515,595,744</b>	

## 5. Segment Information

The following tables regarding business segments present assets and liabilities as of September 30, 2019 and September 30, 2018 and revenue and income information for each of the two periods ended September 30, 2019 and September 30, 2018.

### As of September 30, 2019 (Unaudited)

	Leasing	Residential Development	Total
Rental income	₱638,876,798	₱–	₱638,876,798
Cost of rental income	(376,123,695)	–	(376,123,695)
Real estate sales	–	4,636,542,334	4,636,542,334
Cost of real estate sales	–	(1,224,491,146)	(1,224,491,146)
Segment profit	262,753,103	3,412,051,188	3,674,804,291
General and administrative expense	(42,569,976)	(897,458,069)	(940,028,045)
Interest income	29,025	147,621,291	147,650,316
Interest expense	–	(728,092,628)	(728,092,628)
Other income	–	184,643,840	184,643,840
Other expense	(472,388)	(63,227,899)	(63,700,287)
Provision for income tax	(65,921,929)	(578,874,617)	(644,796,546)
<b>Net income</b>	<b>₱153,817,835</b>	<b>₱1,476,663,106</b>	<b>₱1,630,480,941</b>
Segment assets	₱5,179,535,330	₱ 32,884,552,241	₱38,064,087,571
Deposit on land purchase	–	–	–
<b>Total segment assets</b>	<b>₱5,179,535,330</b>	<b>₱32,884,552,241</b>	<b>₱38,064,087,571</b>
Segment liabilities	₱–	₱ 17,691,650,857	₱17,691,650,857
Accounts and other payables	–	3,632,039,023	3,632,039,023
Income tax payable	–	30,660,059	30,660,059
Deferred tax liability	–	984,521,745	984,521,745
<b>Total liabilities</b>	<b>₱–</b>	<b>₱22,338,871,684</b>	<b>₱22,338,871,684</b>

### As of September 30, 2018 (Unaudited)

	Leasing	Residential Development	Total
Rental income	₱ 675,973,733	₱–	₱675,973,733
Cost of rental income	(402,747,883)	–	(402,747,883)
Real estate sales	–	2,168,494,658	2,168,494,658
Cost of real estate sales	–	(638,093,110)	(638,093,110)
Segment profit	273,225,850	1,530,401,548	1,803,627,398
General and administrative expense	(75,222,542)	(483,626,439)	(558,848,981)
Interest income	–	97,805,120	97,805,120
Interest expense	–	(474,822,873)	(474,822,873)
Other income	–	219,071,778	219,071,778
Other expense	–	(40,730,704)	(40,730,704)
Provision for income tax	(59,400,992)	(249,943,713)	(309,344,705)
<b>Net income</b>	<b>₱138,602,316</b>	<b>₱598,154,717</b>	<b>₱736,757,033</b>
Segment assets	₱ 5,055,887,622	₱ 28,658,633,331	₱33,714,520,953
Deposit on land purchase	–	–	–
<b>Total segment assets</b>	<b>₱5,055,887,622</b>	<b>₱28,658,633,331</b>	<b>₱33,714,520,953</b>
Segment liabilities	₱–	₱ 13,954,225,554	₱13,954,225,554
Accounts and other payables	–	4,086,971,265	4,086,971,265
Income tax payable	4,149,163	15,414,832	19,563,995
Deferred tax liability	533,373,067	322,906,749	856,279,816
<b>Total liabilities</b>	<b>₱537,522,230</b>	<b>₱18,379,518,399</b>	<b>₱18,917,040,630</b>

## 6. Basic/Diluted Earnings per Share

The basic/diluted earnings per share amounts for the years ended September 30, 2019, September 30, 2018 and December 31, 2018 were computed as follows:

	September 2019	September 2018	December 2018
Net income	<b>₱1,630,480,941</b>	₱736,757,033	₱1,065,179,284
Weighted average number of shares outstanding	<b>8,196,450,000</b>	8,946,450,000	8,196,450,000
	<b>₱0.20</b>	₱0.08	₱0.13

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorization of the financial statements.

## 7. Financial Instruments

### Fair Value Information

The methods and assumptions used by the Group in estimating fair value of the financial instruments are as follows:

#### *Cash, receivables accounts and other payables*

Carrying amounts approximate fair values due to the relatively short-term maturities of these financial instruments.

#### *Loans payable*

Carrying amounts approximate the fair values because they carry interest rates which are the prevailing market rates for similar instruments.

#### *Noncurrent installment contracts receivables*

The fair values of real estate receivable are calculated by discounting expected future cash flows at applicable rates for similar instruments using the remaining terms of maturity.

#### *AFS financial assets*

Fair values are based on quoted prices published in markets.

### Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There have been no transfers between Level 1 and Level 2 during 2019 and 2018.

### Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash, receivables, AFS financial assets and accounts and other payables, short-term debt and long-term debt. The Group has other financial liabilities such as accounts and other payables which arise directly from the conduct of its operations.

Management closely monitors the cash fund and financial transactions of the Group. These strategies, to an extent, mitigate the Group's interest rate and credit risks.

Exposure to liquidity and credit risks arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Group's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

#### *Liquidity risk*

Liquidity risk is the risk arising from the shortage of funds due to unexpected events or transactions. The Group manages its liquidity profile to be able to finance the capital expenditures and service the maturing debts. To cover the financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity offerings.

The Group actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. In mitigating liquidity risk, management measures and forecasts its cash commitments, matches debt maturities with the assets being financed, maintains a diversity of funding sources with its unhampered access to bank financing and the capital markets. As part of the liquidity risk management, the Group currently transacts with local banks for an extension and negotiation of higher undrawn credit lines to meet the suppliers' and contractors' obligations and business expansion.

Through scenario analysis and contingency planning, the Group also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost, and ensures the availability of ample unused credit facilities as back-up liquidity.

Cash are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise.

#### *Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Financial assets comprise of cash on hand and in bank, trade receivable, interest receivable and AFS financial assets. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. The Group's exposure to credit

risk from cash on hand and in bank and AFS financial assets arise from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

#### *Real estate contracts*

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts. The credit risk for installment contracts receivables is mitigated as the Group has the right to cancel the sales contract without need for any court action and take possession of the subject lot in case of refusal by the buyer to pay on time the amortization due. This risk is further mitigated because the corresponding title to the subdivision units sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

The credit quality of the financial assets was determined as follows:

Cash - based on the nature of the counterparty.

Receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; and low grade pertains to receivables with more than 3 defaults in payment.

#### *Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group manages the equity price risk through diversification and placing limits on equity instruments.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and maintaining a debt portfolio mix of both fixed and floating interest rates. The portfolio mix is a function of historical, current trend and outlook of interest rates, volatility of short-term interest rates, the steepness of the yield curve, and degree of variability of cash flows.

## ITEM 2: MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULT OF OPERATIONS

### **Result of Operations**

*(Nine month period ended September 30, 2019 compared to the nine month period ended September 30, 2018)*

#### Revenue

Sta. Lucia Land Inc. and Subsidiaries' (Group) gross revenue grew by 77% for the nine month period ending September 30, 2019 amounting to P5,607.71 million as compared to same period last year's P3,161.35 million. The overall increase of P2,446.37 million is the result of aggressive marketing schemes and more inventories of lots and units are offered to the market because of continuous project development. Real estate sales mainly contribute to the increase by P2,467.28 million, increase is brought about by robust sales from newly launched projects. Interest income increased by P49.85 million. Also, downward movement from rental income and other revenues were posted at P37.10 million and P40.09 million respectively as compared to the same period last year.

#### Cost and Expense

As a result of growing operation, overall costs and expenses of the Group posted an increase of P1,217.20 million from P2,115.24 million to P3,332.44 million for the nine months period ending September 30, 2019. Cost of real estate sales increased by P586.40 million driven by higher sales as compared to the previous period. Interest expense increased by P253.27 million brought about by the maximization of capital raising through bank lines. Total selling and administrative expenses increased from P599.58 million to P1,003.73 million as compared to the same period last year. The increase was brought about by the increase in common expense as impacted by the robust increase in sales realized during the period.

#### Comprehensive Income

Total comprehensive income of the Group reported increased by 114% or P1,471.15 million for the nine month period ending September 30, 2019 as compared to same period last year.

### **Financial Condition**

*(Nine months ended September 30, 2019 compared to year ended December 31, 2018)*

#### Total Assets

Total assets reported by the Group amounts to P38,064.09 million as of 3<sup>rd</sup> quarter of 2019 from P34,716.16 million in December 31, 2018. This shows an increase of P3,347.93 million which is mainly due to the impact as result of the robust increase in real estate sales during the period. Receivables increased by P2,417.38 million. Real estate inventories as well as on other current assets also posted an increase amounting to P1,762.00 million and P1,389.51 million, respectively.

#### Total Liabilities

Group's total liabilities posted an amount of P22,338.87 million as of 3<sup>rd</sup> quarter of 2019 which is 10% higher as compared to P20,261.85 million from December 31, 2018. This is due to a P1.5 billion credit note facility secured during the year. Accounts payable decrease by P358.79 million. Current and noncurrent contract liabilities arising from sales of real estate also increased by P480.29 million and P539.08 million, respectively.

## Key Performance Indicators

	September 30, 2019	December 31, 2018
<b>Current Ratio</b>	<b>3.28</b>	<b>2.81</b>
<b>Debt to Equity</b>	<b>.93</b>	<b>1.40</b>
<b>Interest Coverage Ratio</b>	<b>412.50%</b>	<b>161.61%</b>
<b>Return on Asset</b>	<b>4.28%</b>	<b>3.06%</b>
<b>Return on Equity</b>	<b>10.37%</b>	<b>7.37%</b>

\*Notes to Key Performance Indicator:

1. Current Ratio = current assets (*cash, receivables, inventories, due from affiliates, prepaid commissions, and other current asset*) over current liabilities (*accounts payable, customer deposit, current portion of bank loans and income tax payables*).
2. Debt to Equity = Total debt over shareholder's equity.
3. Interest Coverage Ratio = Earnings before Income Tax and Interest Expense over Interest Expense
4. Return on Asset = Net Income over Total Assets
5. Return on Equity = Net Income over shareholder's equity.

## Material Changes in the Balance Sheet (+/- 5%) as of September 30, 2019 versus the Balance Sheet as of December 31, 2018

### **22% decrease in cash**

*Attributable to capital expenditures incurred for the continuous development of existing projects and acquisition of various raw lands for future expansions and new projects.*

### **56% increase in current contract assets**

*Due to robust sales growth and more projects that have been developed and offered for sale in the market.*

### **10% increase in real estate inventories**

*Increase was due to the continuous development of new and ongoing projects by the Group. Also, the strategic landbanking employed by the Group to increase its position in the market niche.*

### **27% increase in other current assets**

*Increase was brought about by the advances made to contractors to develop raw lands purchased in the previous year and also advance commissions paid to marketing arms to promote sales.*

### **25% increase in noncurrent contract assets**

*Due to robust sales growth and more projects that have been developed and offered for sale in the market.*

### **12% decrease in financial assets at fair value through other comprehensive income**

*Decrease was due to the movement of market values of quoted investment securities of Phil Racing Inc. and Manila Jockey Club Inc.*

### **12% increase in other noncurrent assets**

*Increase was due to more advances made to contractors to develop raw lands purchased in the previous year. Also, increase was attributable to the advance commissions paid to marketing arms to promote sales.*

### **10% decrease in accounts and other payables**

*Decrease was due to the settlement of outstanding payables to suppliers and contractors.*

**13% decrease in short-term debt**

*This is a result of settlement of some short term obligation financed through facility secured from various banks*

**24% increase in current contract liabilities**

*Increase in real estate sales during the period has significantly affected the contract liabilities during the period.*

**51% increase in income tax payable**

*Increase in real estate sales during the period has significantly increased the current year's tax liabilities.*

**15% increase in long-term debt**

*Increase in long-term debt was due to a new P1,500 million credit loan facility acquired from Bank of the Philippine Islands during the period.*

**1,187% increase in noncurrent contract liabilities**

*Increase in real estate sales during the period has significantly affected the contract liabilities during the period.*

**30% increase in pension liabilities**

*Due to the changes in estimates for retirement liability as valued by the independent actuary.*

**49% increase in deferred tax liabilities**

*Attributable to timing differences in revenue and expenses between accounting and tax reporting .*

**26% increase in retained earnings**

*Increase in retained earnings is primarily attributable to the net income recognized during the period.*

**28% decrease in unrealized fair market value of AFS**

*Decrease was due to the decrease in market price of investment securities in Philippine Racing Inc. and Manila Jockey Club Inc.*

**17% increase in unrealized gain on pension liabilities**

*Due to the changes in estimates for retirement liability as valued by the independent actuary.*

**Material Changes in the Income Statement (+/-5%) for the Nine-Month Period Ended September 30, 2019 versus the Income Statement for the Nine-Month Period Ended September 30, 2018****101% increase in real estate sales**

*Remarkable sales take up of projects launched during the year, boosted efforts in increasing the real estate sales and extensive expansion had increased the recognized sales during the period.*

**5% decrease in rental income**

*Due to re-evaluation of lease rates to be competitive with neighbouring malls.*

**51% increase in interest income**

*Significant increase in sales recognized during the period directly affected interest income during the period as more buyers opted to choose instalment payment scheme.*

**18% increase in other income**

*Increase is directly attributed to the significant increase in sales recognized during period. Other income includes the processing fees and other sales related items.*



**83% increase in cost of real estate sales**

*Increase in cost of real estate sales recognized for the period is directly brought about by the robust increase in recognized sales during the period.*

**7% decrease in cost of rental income**

*Decrease in cost of rental income is directly relative to the movement of the recognized rental income for the period.*

**53% increase in interest expense**

*Increase in interest expense was brought about by the Group's current debt structure. The maximization of debt financing by the Group had directly increased the recognized interest expense during the period.*

**117% increase in commissions**

*Increase in recognized commission expense was directly proportional to the robust sales recognized during the period.*

**296% increase in representation**

*Increase was primarily due to the increase in volume of transactions made by the Group.*

**6% increase in taxes and licenses**

*Increase brought about by the increase operational activities and volume of transactions by the Group.*

**16% increase in salaries and wages and other benefits**

*As labor force of the Group during the period was increased, attributable expenses relating to salaries, wages and other employee benefits had increased.*

**10% decrease in professional fees**

*Attributable to minimal consultation made to professionals for the first three quarters of 2018.*

**16% increase in salaries and wages and other benefits**

*Driven by increase in number of employees and salary adjustments.*

**25% decrease in advertising expense**

*Decrease was due cost minimization strategy employed by the Group to increase its net income.*

**649% increase in repairs and maintenance**

*Attributable to the capitalization of various major repairs and maintenance to inventory accounts and higher costs for the administration.*

**164% increase in utilities**

*Increase was due to higher consumption of power, water and other utilities during the period as brought about by the increase in the volume of transactions.*

**6% increase in professional fees**

*Increase was due to increase in the need of professional services and consultants during the period.*

**56% increase in miscellaneous expenses**

*Due to surcharges and penalties, insurance, legal, office supplies, software maintenance and transportation expenses incurred by the Group.*

## PART II – OTHER INFORMATION

### **Item 3: Nine Months of 2019 Developments**

No additional subscription was made by the Company nor was any merger executed.

A. Composition of Board of Directors

Vicente R. Santos	Chairman
Exequiel D. Robles	President
Mariza Santos-Tan	Treasurer
Aurora D. Robles	Assistant Treasurer
Antonio D. Robles	Director
Orestes R. Santos	Director
Simeon Cua	Director
Jose Ferdinand R. Guiang	Independent Director
Osmundo De Guzman, Jr.	Independent Director

B. Performance of the corporation or result/progress of operations.

*Please see the unaudited Financial Statements and Management's Discussion and Analysis (MD&A) on result of operation with regards to the performance of the corporation or result/process of operations.*

C. Declaration of Dividends.

*None*

D. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements.

*None*

E. Offering of rights, granting of Stock Options and corresponding plans thereof.

*None*

F. Acquisition of additional mining claims or other capital assets or patents, formula, real estate.

*Not Applicable*

G. Other information, material events or happenings that may have affected or may affect market price of security.

*None*

H. Transferring of assets, except in normal course of business.

*None*

### **Item 4: Other notes to Operations and Financials as of September 30, 2019**

I. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents

*None*

J. Nature and amount of change in estimates of amounts reported in prior periods and their material effect in the current period.

*There were no changes in estimates of amounts reported in prior interim period or prior financial years that have a material effect in the current interim period.*

- K. New financing through loans/issuances, repurchases and repayments of debt and equity securities.  
*The Group acquired new a P1,500 million credit note facility during the period.*
- L. All Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.  
*There were no material events subsequent to the end of the interim period that has not been reflected in the financial statements for the period covered.*
- M. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long term investment restructurings, and discontinuing operations.  
*None*
- N. Changes in contingent liabilities or contingent assets since the last annual balance sheet date.  
*None*
- O. Existence of material contingencies and other material events or transactions during the interim period.  
*None*
- P. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.  
*None*
- Q. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations) , and other relationships of the company with unconsolidated entities or others persons created during the reporting period.  
*None*
- R. Material commitments for capital expenditures, general purpose and expected sources of funds.  
*None*
- S. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/income from continuing operations.  
*None*
- T. Significant elements of income or loss that did not arise from continuing operations.  
*None*
- U. Causes for any material change/s from period to period in one or more line items of the financial statements.  
*See Management Discussion & Analysis portion of the quarter report*
- V. Seasonal aspects that had material effect on the financial condition or results of operations.  
*None*
- W. Disclosures not made under SEC Form 17-C  
*None*

**STA. LUCIA LAND, INC. AND SUBSIDIARIES****FINANCIAL RATIOS**


As of September 30, 2019

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>Current Ratio</b>	<b>3.28</b>	<b>2.81</b>
<b>Debt to Equity</b>	<b>.93</b>	<b>1.40</b>
<b>Interest Coverage Ratio</b>	<b>412.50%</b>	<b>161.61%</b>
<b>Return on Asset</b>	<b>4.28%</b>	<b>3.06%</b>
<b>Return on Equity</b>	<b>10.37%</b>	<b>7.37%</b>

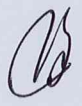
## SIGNATURES

Pursuant to the Requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**STA. LUCIA LAND, INC.**  
Issuer



**EXEQUIEL D. ROBLES**  
**President and CEO**  
Date: November 15, 2019



**VICENTE R. SANTOS**  
**Chairman of the Board**  
Date: November 15, 2019