C O V E R S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

ARANETA PROPERTIES, INC.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

21ST FLOOR, CITIBANK TOWER, PASEO DE ROXAS, MAKATI CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	N/A

COMPANY INFORMATION

Company s Email Address	Company s Telephone Number	Mobile Number
Not Applicable	(02) 8848-1501	Not Applicable

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
2,146	12/06	December 31

CONTACT PERSON INFORMATION

The designated contact person _____ be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. Gerardo Deloso	gerardo_deloso@yahoo.com	(02) 8848-1501	Not Applicable

CONTACT PERSON's ADDRESS

21st Floor, Citibank Tower, Paseo de Roxas, Makati City

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

N *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Araneta Properties, Inc.
21st Floor, Citibank Tower
Paseo de Roxas, Makati City

Report on the Audit of the Financial Statements

We have audited the financial statements of Araneta Properties, Inc. (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Real Estate Revenue Recognition

The Company's revenue recognition process is significant to our audit because this involves application of significant judgment and estimation particularly in the assessment of the probability that the Company will collect the consideration from the buyer.

In evaluating whether collectability of the amount of consideration is probable, the Company considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is assessed by considering factors such as past collection history, age of receivables and the pricing of the property. Management also regularly evaluates the history of sales cancellations and back-outs to determine if these would affect its current threshold of buyer's equity before commencing revenue recognition.

The disclosures related to real estate revenue are included in Notes 2 and 3 of the financial statements.

Audit Response

We obtained an understanding of the Company's revenue recognition process.

We performed inquiries with relevant personnel on the sales, collection and reporting processes. For the buyer's equity, we evaluated the management's basis by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold. We traced the analysis to supporting documents such as the buyer's collection report and official receipts. We obtained sales and collection reports and compared the data with the information in the Company's revenue calculation and monitoring schedule, and reviewed the disposition of differences noted. On a test basis, we traced reported lot sales and actual collection remittances to corresponding sales invoices and contracts to sell and official receipts and bank records. We performed cut-off procedures by examining sales and collection reports for the month subsequent to the cut-off date.

We evaluated the disclosures made in the financial statements related to the revenue recognition process of the Company.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Araneta Properties, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-AR-1 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125311, January 7, 2020, Makati City

June 23, 2020

ARANETA PROPERTIES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 16)	**₱4,074,862**	₱27,360,025
Trade and other receivables (Notes 5, 16 and 17)	**181,518,664**	161,965,600
Real estate inventories (Notes 6 and 17)	**884,385,885**	505,060,705
Input value-added tax (VAT) - net	**70,151,947**	75,385,117
Prepaid taxes	**7,151,417**	6,526,409
Total Current Assets	**1,147,282,775**	776,297,856
Noncurrent Assets		
Trade receivables - net of current portion (Notes 5, 16 and 17)	**170,121,858**	181,392,613
Property and equipment (Note 8)	**7,217,105**	10,373,999
Investment properties? (Note 9)	**674,056,173**	1,023,069,063
Equity instruments at fair value through other comprehensive income (FVOCI)	**5,681,897**	4,231,898
Total Noncurrent Assets	**857,077,033**	1,219,067,573
TOTAL ASSETS	**₱2,004,359,808**	₱1,995,365,429
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 10 and 16)	**₱27,519,980**	₱35,649,694
Current portion of liability for purchased land (Notes 11 and 16)	**115,305,608**	58,156,238
Income tax payable	**812,477**	–
Due to related parties (Notes 12 and 16)	**30,745,769**	13,805,287
Total Current Liabilities	**174,383,834**	107,611,219
Noncurrent Liabilities		
Liability for purchased land - net of current portion (Notes 11 and 16)	–	55,481,641
Retirement benefit obligation (Note 13)	**25,691,340**	21,752,706
Deferred tax liability - net (Note 14)	**37,451,959**	36,258,914
Total Noncurrent Liabilities	**63,143,299**	113,493,261
Total Liabilities	**237,527,133**	221,104,480
Equity		
Capital stock - ₱1 par value		
Authorized - 5,000,000,000 shares		
Issued - 1,951,387,570 shares (Note 16)	**1,951,387,570**	1,951,387,570
Additional paid-in capital (Note 16)	**201,228,674**	201,228,674
Other components of equity	**2,726,897**	1,711,897
Remeasurement losses on retirement benefit plan (Note 13)	**(1,388,663)**	(310,430)
Deficit (Note 16)	**(387,121,803)**	(379,756,762)
Total Equity	**1,766,832,675**	1,774,260,949
TOTAL LIABILITIES AND EQUITY	**₱2,004,359,808**	₱1,995,365,429

See accompanying Notes to Financial Statements.

ARANETA PROPERTIES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
SALE OF REAL ESTATE (Notes 5 and 17)	**₱32,896,604**	₱62,512,270	₱60,971,337
COST OF REAL ESTATE SOLD (Notes 6 and 17)	**(6,868,274)**	(13,040,595)	(21,422,829)
GROSS PROFIT	**26,028,330**	49,471,675	39,548,508
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and wages	**20,207,526**	20,396,819	23,907,047
Security services	**11,541,241**	8,513,684	12,206,473
Taxes and licenses	**9,804,969**	10,269,041	10,094,205
Depreciation (Note 8)	**2,605,071**	3,123,635	3,286,818
Retirement benefit expense (Note 13)	**2,398,302**	2,221,852	2,378,627
Professional fees	**2,344,936**	1,319,819	1,837,886
Building dues and related charges	**1,643,748**	1,613,208	1,669,262
Entertainment, amusement and recreation	**1,146,300**	729,316	1,419,533
Transportation and travel	**370,310**	407,356	832,038
Repairs and maintenance	**280,806**	434,165	982,072
Utilities	**269,491**	551,725	599,421
Others	**3,549,713**	3,443,450	4,958,307
	(56,162,413)	(53,024,070)	(64,171,689)
OTHER INCOME (EXPENSE)			
Interests, penalties and other income (Notes 4, 5, 10 and 20)	**27,551,925**	56,108,720	20,162,942
Gain on extinguishment of debt - net (Note 11)	**1,172,645**	–	–
Loss on disposal of property and equipment	**(756,385)**	–	–
Interest expense (Notes 11 and 20)	**(2,840,374)**	(5,268,597)	(7,390,895)
	25,127,811	50,840,123	12,772,047
INCOME (LOSS) BEFORE INCOME TAX	**(5,006,272)**	47,287,728	(11,851,134)
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 14)			
Current	**(1,138,624)**	(1,694,811)	(1,024,478)
Deferred	**(1,220,145)**	(14,133,035)	2,215,967
	(2,358,769)	(15,827,846)	1,191,489
NET INCOME (LOSS)	**(7,365,041)**	31,459,882	(10,659,645)
OTHER COMPREHENSIVE INCOME (LOSS)			
Item to be reclassified to profit or loss in subsequent periods			
Unrealized valuation gains on available-for-sale (AFS) financial assets	**–**	–	90,000
Items not to be reclassified to profit or loss in subsequent periods			
Net changes in fair value of equity instruments at FVOCI	**1,015,000**	1,741,897	–
Remeasurement gains (loss) on retirement benefit plan, net of deferred taxes of ₱0.46 million in 2019 ₱0.61 million in 2018 and ₱0.90 million in 2017 (Note 13)	**(1,078,233)**	1,417,382	2,109,768
	(63,233)	3,159,279	2,199,768
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱7,428,274)**	₱34,619,161	(₱8,459,877)
EARNINGS (LOSS) PER SHARE			
Basic and diluted (Note 15)	**(₱0.0038)**	₱0.0161	(₱0.0055)

See accompanying Notes to Financial Statements.

ARANETA PROPERTIES, INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Other Components of Equity	Remeasurement Losses on Retirement Benefit Plan, net of Deferred Taxes (Note 13)	Deficit	Total
Balances at January 1, 2017	**₱1,951,387,570**	**₱201,228,674**	**(₱120,000)**	**(₱3,837,580)**	**(₱400,556,999)**	**₱1,748,101,665**
Net loss	–	–	–	–	(10,659,645)	(10,659,645)
Other comprehensive income	–	–	90,000	2,109,768	–	2,199,768
Total comprehensive income (loss)	–	–	90,000	2,109,768	(10,659,645)	(8,459,877)
Balances at December 31, 2017	**1,951,387,570**	**201,228,674**	**(30,000)**	**(1,727,812)**	**(411,216,644)**	**1,739,641,788**
Net income	–	–	–	–	31,459,882	31,459,882
Other comprehensive income	–	–	1,741,897	1,417,382	–	3,159,279
Total comprehensive income	–	–	1,741,897	1,417,382	31,459,882	34,619,161
Balances at December 31, 2018	**1,951,387,570**	**201,228,674**	**1,711,897**	**(310,430)**	**(379,756,762)**	**1,774,260,949**
Net loss	–	–	–	–	(7,365,041)	(7,365,041)
Other comprehensive income (loss)	–	–	1,015,000	(1,078,233)	–	(63,233)
Total comprehensive income (loss)	–	–	1,015,000	(1,078,233)	(7,365,041)	(7,428,274)
Balances at December 31, 2019	**₱1,951,387,570**	**₱201,228,674**	**₱2,726,897**	**(₱1,388,663)**	**(₱387,121,803)**	**₱1,766,832,675**

See accompanying Notes to Financial Statements.

ARANETA PROPERTIES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**(₱5,006,272)**	₱47,287,728	(₱11,851,134)
Adjustments for:			
Interest expense (Notes 11 and 20)	**2,840,374**	5,268,597	7,390,895
Depreciation (Note 8)	**2,605,071**	3,123,635	3,286,818
Retirement benefit expense (Note 13)	**2,398,302**	1,614,402	2,378,627
Loss on disposal of property and equipment	**756,385**	–	–
Provision for impairment losses on receivables (Note 5)	**–**	–	241,290
Interest income (Note 4)	**(185,069)**	(207,381)	(616,384)
Net gain on extinguishment of debt (Note 11)	**(1,172,645)**	–	–
Operating income before working capital changes	**2,236,146**	57,086,981	830,112
Decrease (increase) in:			
Trade and other receivables	**(8,282,309)**	(26,432,956)	(15,512,468)
Real estate inventories	**5,026,845**	8,203,141	21,422,829
Input VAT	**5,233,170**	5,381,294	(1,212,946)
Prepaid taxes	**(625,008)**	–	–
Increase in accounts payable and accrued expenses	**(8,129,714)**	2,644,211	2,373,979
Net cash generated from (used in) operations	**(4,540,870)**	46,882,671	7,901,506
Interest received	**185,069**	207,381	616,384
Income taxes paid	**(326,147)**	(1,001,580)	20,258
Net cash flows provided by (used in) operating activities	**(4,681,948)**	46,088,472	8,538,148
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to investment properties (Notes 7, 9 and 20)	**(35,339,135)**	(12,655,485)	(9,308,503)
Acquisitions of property and equipment (Note 8)	**(204,562)**	(1,796,756)	(49,374)
Net cash flows used in investing activities	**(35,543,697)**	(14,452,241)	(9,357,877)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in due to related parties (Note 12)	**16,940,482**	–	–
Decrease in due from related parties (Note 12)	**–**	34,728,163	16,105,830
Payment of liability for purchased land (Note 20)	**–**	(66,085,043)	(64,152,804)
Net cash flows provided by (used in) financing activities	**16,940,482**	(31,356,880)	(48,046,974)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(23,285,163)**	279,351	(48,866,703)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**27,360,025**	27,080,674	75,947,377
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱4,074,862**	₱27,360,025	₱27,080,674

See accompanying Notes to Financial Statements.

ARANETA PROPERTIES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of Financial Statements

Corporate Information
Araneta Properties, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on June 15, 1988 to acquire, own, hold, improve, develop, subdivide, sell, lease, rent, mortgage, manage and otherwise deal in real estate or any interest therein, for residential, commercial, industrial and recreational purposes, as well as to construct and develop or cause to be constructed and developed on any real estate or other properties, golf course, buildings, hotels, recreation facilities and other similar structures with their appurtenances; and in general, to do and perform any and all acts or work which may be necessary or advisable for or related incidentally or directly with the aforementioned business or object of the Company. The Company is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since November 14, 1989.

The Company's registered office address and principal place of business is at 21st Floor, Citibank Tower, Paseo de Roxas, Makati City.

Authorization for Issuance of Financial Statements
The financial statements of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were authorized for issuance by the Company's Board of Directors (BOD) on June 23, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation
The financial statements have been prepared under the historical cost basis, except for equity instruments which are carried at fair value. The financial statements are presented in Philippine peso (₱), which is the Company's functional currency. All values are rounded off to the nearest ₱ except when otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS), which include the availment of the relief granted by the SEC under Memorandum Circular No. 4-2020 as discussed in the section below on Adoption of New and Amended Accounting Standards and Interpretations. PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2019. Unless otherwise indicated, adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

The nature and impact of each new standards and amendment are described below:

- PFRS 16, *Leases*
  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation 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 recognize most leases on the balance sheet.

  The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

  Upon adoption of PFRS 16, the Company assessed that its lease contract qualifies as a short-term lease. Therefore, no right-of-use assets and lease liabilities were recognized.

- Philippine Interpretation 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*. It 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.

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Based on the Company's assessment, it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the adoption of this Interpretation has no significant impact on the financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *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*

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Future Changes in Accounting Policies
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments do not have any impact on the Company's financial statements.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)

- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

These amendments do not have any impact on the Company's financial statements.

Deferred effectivity

- Amendments to PFRS 10, *Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  These amendments do not have any impact on the Company's financial statements.

- Deferment of Implementation of IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, *Borrowing Cost*) for the Real Estate Industry
  In March 2019, IFRIC published an Agenda Decision on whether borrowing costs can be capitalized on real estate inventories that are under construction and for which the related revenue is/will be recognized over time under par. 35(c) of PFRS 15. IFRIC concluded that borrowing costs cannot be capitalized for such real estate inventories as they do not meet the definition of a qualifying asset under PAS 23 considering that these inventories are ready for their intended sale in their current condition.

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

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

  The Company opted to avail of the relief as provided by the SEC. The Company does not expect any effect on its financial statements.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and are subject to an insignificant risk of change in value.

Financial Instruments – Initial Recognition and Subsequent Measurement effective January 1, 2018
Initial recognition
The Company classifies financial assets, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. Except for trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

For a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Company'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 Company commits to purchase or sell the asset.

Subsequent measurement of financial assets
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost
- Financial assets at fair value through profit or loss
- Financial assets at fair value through OCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- Financial assets designated at fair value through OCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Financial assets at amortized cost
The Company measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- 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

Financial assets at amortized cost are initially recognized at fair value plus directly attributable transaction costs and subsequently measured using the effective interest (EIR) method, less any impairment in value. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. This accounting policy relates to the Company's "Cash and cash equivalents", and "Trade and other receivables".

Financial assets at FVOCI
Debt instruments. The Company 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

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

As of December 31, 2019 and 2018, the Company does not have debt instruments at FVOCI.

Equity instruments. The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its quoted equity investments under this category.

Financial assets at FVTPL
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 if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also 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 amortized 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.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:
- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Impairment of Financial Assets effective January 1, 2018
The Company 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 Company 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.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are also recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

The Company applies a simplified approach in calculating ECLs for "Trade receivables". Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. Both are further adjusted for forward-looking factors specific to the debtors and the economic environment.

For all debt financial assets other than trade receivables, ECLs are recognized using the general approach wherein the Company tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

At each reporting date, the Company 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 Company 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.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Company from the time of origination.

The Company's "Cash and cash equivalents" are graded to be low credit risk investment based on the credit ratings of depository banks and related parties as published by Bloomberg Terminal.

Write-off policy effective January 1, 2018
The Company writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Reclassifications of Financial Instruments effective January 1, 2018
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

Financial Instruments - Initial Recognition and Subsequent Measurement prior to January 1, 2018
Initial Recognition
Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

The Company classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) financial assets, held-to-maturity (HTM) investments and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities.

Financial Assets
The Company's financial assets consist of loans and receivables and AFS financial assets.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as financial assets at FVPL.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. 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, if any, is included in "Interest" account in the statement of comprehensive income as part of profit or loss. The losses arising from impairment of receivables, if any, are recognized as expense in the statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts.

AFS Financial Assets
AFS financial assets are those investments which are designated as such or do not qualify to be classified as financial assets at FVPL 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 measurements, AFS financial assets are measured at fair value. Unrealized gains and losses arising from fair valuation of AFS equity investments are reported as part of the "Other comprehensive income" section of the statement of comprehensive income.

AFS financial assets whose fair value cannot be reliably established are carried at cost less an allowance for any possible impairment. This normally applies to equity investments that are unquoted and whose cash flows cannot be forecasted reasonably.

When the investment is disposed of, the cumulative gains or losses previously recognized in the statement of changes in equity is recognized as part of net income in the statement of comprehensive income as a reclassification adjustment. Interest earned on holding AFS financial assets are reported as interest income using the EIR method. Dividends earned on holding AFS financial assets are recognized when the right to receive has been established which is usually the date of declaration of dividends. The losses arising from impairment of such investments are recognized as provision for impairment losses as part of profit or loss.

Financial Liabilities
The Company's financial liabilities consist of other financial liabilities.

Issued financial liabilities or their components, which are not designated as financial liabilities at FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Impairment of Financial Assets prior to January 1, 2018
The Company 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 Company 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 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.

If the Company 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. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of counterparty, credit 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 Company. 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 historical loss experience is based and to remove the effects of conditions in the historical period that do not which the exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

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 similar financial assets) is derecognized when:

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

When the Company 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 the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company 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 Company could be required to repay.

Financial Liabilities
A financial liability is derecognized when the obligation under the financial liability is discharged or 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 financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

<u>Fair Value Measurement</u>
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 Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient date 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 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 financial statements on a recurring basis, the Company 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 each reporting date.

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

Current versus Noncurrent Classification

The Company presents assets and liabilities in statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading.
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

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. The assets are used to obtain benefits for the operators. Each operator takes a share of the output from the assets, as agreed between parties 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 results of the joint operation. Contribution of the Company to the joint operation is included in real estate inventories.

The Company's project agreement with Sta. Lucia Realty and Development, Inc. (SLRDI) and Sta. Lucia Land, Inc. (SLI) are accounted for as a joint operation (see Note 17).

Real Estate Inventories
Property acquired or those that are being developed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, are held as inventory and are measured at the lower of cost and net realizable value (NRV).

Cost includes:
- Land cost;
- Borrowing costs, professional fees, property transfer taxes 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 necessary to make the sale.

Value-added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position up to the extent of the recoverable amount.

Prepaid Taxes
Prepaid taxes pertain to the excess payment against the current income tax due which are expected to be utilized as payment for income taxes within twelve (12) months.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The initial cost of property and equipment comprises its purchase price, including import duties, any nonrefundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to expense in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is calculated using the straight-line method over the estimated useful life of the assets or term of the lease, in the case of building and improvements, whichever is shorter, as follows:

Category	Number of Years
Office condominium unit	25
Building and improvements	25
Hauling and transportation equipment	5
Machinery and equipment	5
Furniture, fixtures and other equipment	5

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

When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation are removed from the accounts. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income as part of profit or loss in the year the asset is derecognized.

Fully depreciated assets are retained as property and equipment until these are no longer in use.

Investment Property
Investment property, comprising parcels of land, is held either to earn rental income or for capital appreciation or both. Investment property is measured initially and subsequently at cost, including transaction costs less any accumulated impairment losses.

Investment property is derecognized when 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 the statement of comprehensive income as part of profit or loss in the year of the retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with PAS 16 up to the date of change in use.

Investment property also consist of land held for future development that are carried at the lower of cost and NRV. All costs incurred that are directly and clearly associated with the acquisition of the land and obtaining the necessary land conversion approval, including borrowing costs, are capitalized to land held under development. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale.

Deposit for Land Acquisition
This represents deposits made to land owners for the purchase of certain parcels of land that are intended for future development. The Company normally makes deposits before a Contract to Sell (CTS) or Deed of Absolute Sale is executed between the Company and the land owner. Deposit for land acquisition is initially measured at cost, including transaction costs. Subsequent to initial recognition, deposit for land acquisition is stated at cost less any accumulated impairment losses.

Impairment of Property and Equipment, Investment Property and Other Nonfinancial Assets
These assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The fair value less costs to sell 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 less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income as part of profit or loss.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of comprehensive income as part of profit or loss. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Capital Stock and Additional Paid-in Capital
The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds. Additional paid-in capital represents the excess of the investors' total contribution over the stated par value of shares.

Deficit
Deficit includes accumulated losses attributable to the Company's stockholders. Deficit may also include effect of changes in the accounting policy as may be required by the transitional provisions of new and amended standards.

Revenue Recognition effective January 1, 2018
Revenue from Contract with Customers
Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has generally concluded that it is the principal in its revenue arrangements.

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

Sale of Real Estate
The Company derives primarily its sale of real estate from project agreement with SLRDI. 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 Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Company uses the output method. The Company recognizes revenue on the basis of direct measurements of the value to customers of the goods transferred to date, relative to the remaining goods promised under the contract. Progress is measured using survey of performance completed to date. This is based on the project accomplishment report prepared by the project's supervising engineers which integrates the surveys of performance to date of the construction activities.

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

Income from Penalties and Other Income
Income from penalties and other income is recognized when earned.

Cost and Expense Recognition
Cost of Real Estate Sold
The Company recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets. These include costs of land, planning and design, professional fees, property transfer taxes, among others. These costs are allocated to the saleable area, with the portion allocable to the sold units being recognized as cost of real estate sold while the portion allocable to the unsold units 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 the changes are determined.

General and Administrative Expenses
General and administrative expenses constitute costs of administering the business and are expensed as incurred.

Contract Balances
Trade Receivables
Trade receivables represents the Company'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 transferred to the customer. If the Company performs by transferring goods 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 to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

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

Costs to Obtain Contract
The incremental costs of obtaining a contract with a customer are recognized as an asset if the Company expects to recover them. These are charged to expense in the period in which the related revenue is recognized as earned.

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

Amortization, derecognition and impairment of capitalized costs to obtain a contract
The Company amortizes capitalized costs to obtain a contract to cost of real estate sold over the expected construction period using POC following the pattern of real estate revenue recognition. The amortization is included within cost of real estate sold.

A capitalized cost 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 Company determines whether there is an indication that cost to obtain a contract maybe impaired. If such indication exists, the Company makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company 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.

Revenue Recognition prior to January 1, 2018
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Real Estate
Real estate revenue arising from the project agreement with SLRDI is accounted for using the percentage of completion method. The percentage of completion method is used to recognize income from sales of projects where the Company has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the project's supervising engineer's percentage of completion report.

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

Income from Penalties and Other Income
Income from penalties and other income is recognized when earned.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise while interest expenses are accrued in the appropriate period.

Cost of Real Estate Sold
Cost of real estate sales arising from the project agreement with SLRDI is recognized consistent with the revenue recognition method applied. Cost of subdivision land includes land cost, planning and design costs, professional fees, property transfer taxes and other related costs.

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.

Retirement Benefit Expense
The Company has an unfunded, defined benefit retirement plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Interest on the defined benefit liability
- Remeasurements of defined benefit liability

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

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

Remeasurements comprising actuarial gains and losses are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Income Taxes
Current Income Tax
Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

Deferred Tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences 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 to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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 taxable profit will be available to allow all or part of the 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.

Deferred tax relating to items recognized directly in equity is recognized in the statement of changes in equity and as other comprehensive income in the statement of comprehensive income.

Provisions

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

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income as part of profit or loss, net of any reimbursement.

Segment Reporting

The Company's operating business is organized and managed according to the nature of the service provided, with said segment representing a strategic business unit that the Company serves.

Earnings (Loss) Per Share

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings/loss per share is calculated by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares issued and outstanding during the period after giving retroactive effect to any stock dividends declared.

Diluted earnings (loss) per share is calculated in the same manner, adjusted for the effects of any dilutive potential common shares. Where the effect of the dilutive potential common shares would be anti-dilutive, basic and diluted earnings per share are stated at the same amount.

Contingencies

Contingent liabilities are not recognized in the 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 financial statements but disclosed when an inflow of economic benefit is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Company's position at the reporting date (i.e., adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. **Significant Accounting Judgments and Estimates**

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the 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 Company'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 financial statements.

Revenue Recognition Method and Measure of Progress
The Company concluded that sale of real estate is to be recognized over time because: (a) the Company's performance does not create an asset with an alternative use and; (b) the Company has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Company's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date. In addition, the Company requires a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to the Company.

The Company has determined that output method used in measuring the progress of the performance obligation faithfully depicts the Company's performance in transferring control of real estate development to the customers.

Incorporation of Forward-looking Information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, the Company has considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. Based on the Company's evaluation and assessment and after taking into consideration external actual and forecast information, the Company considers a representative range of possible forecast scenarios. This process involves gathering two or more economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The Company has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3-5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

Definition of Default and Credit-Impaired Financial Assets
The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- *Quantitative criteria*
  The customer is more than 90 days past due on its contractual payments, i.e. principal and/or interest, which is consistent with the regulatory definition of default.
- *Qualitative criteria*
  The customer meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
  - The customer is experiencing financial difficulty or is insolvent;
  - The customer is in breach of financial covenant(s);
  - An active market for that financial assets has disappeared because of financial difficulties;
  - Concessions have been granted by the Company, for economic or contractual reasons relating to the customer's financial difficulty;
  - It is becoming probable that the customer will enter bankruptcy or other financial reorganization; and
  - Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout the Company's expected loss calculation.

An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of six months as it has exhibited a satisfactory track record. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Distinction between Joint Operation and Joint Venture
The Company applies judgment when assessing whether a joint arrangement is a joint operation or a joint venture. The Company determines the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. The Company assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. The Company's arrangements with SLRDI and SLI are not structured through a separate vehicle. The contractual arrangements establish the parties rights to the assets, obligations for the liabilities,

relating to the arrangements, and the parties rights to the corresponding revenues and obligations for the corresponding expenses. Accordingly, these agreements were accounted for as joint operations (see Note 17).

Determining Indicators of Impairment of Property and Equipment and Investment Property
The Company assesses impairment on these assets whenever events or changes in circumstances indicate that their carrying amounts are no longer recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the cost of disposal. The value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make judgments and estimates that can materially affect the financial statements.

There were no impairment indicators noted for property and equipment, and investment properties in 2019, 2018 and 2017, as such, there were no impairment provided.

The aggregate carrying amounts of property and equipment, and investment properties amounted to ₱681.27 million and ₱1,033.44 million as of December 31, 2019 and 2018, respectively (see Notes 8 and 9).

Estimates

Revenue Recognition on Sale of Real Estate and Collectability of the Sales Price
The Company's revenue recognition require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's sale of real estate arises from its joint operation agreement with SLRDI. The Company's revenue from the sale of real estate are disclosed more fully in Note 2 to the financial statements. Management uses 20% of the contract price as the collection threshold before a sale is recognized. Revenue from sale of real estate amounted to ₱32.89 million, ₱62.51 million, and ₱60.97 million in 2019, 2018 and 2017, respectively. The related costs of real estate sold amounted to ₱6.87 million, ₱10.01 million, and ₱21.42 million in 2019, 2018 and 2017, respectively.

Estimating Impairment of Trade and Other Receivables effective January 1, 2018
The Company uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as inflation and gross domestic product growth rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The Company uses vintage analysis approach to calculate ECLs for trade and other receivables. The vintage analysis accounts for expected losses by calculating the cumulative loss rates of a given loan pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the PD model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

The Company defines a financial instrument as in default when a customer is more than 90 days past due on its contractual obligations. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria.

The assessment of the correlation between historical observed default rates, forecast economic conditions (inflation and interest rates) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

There was no provision for expected credit loss recognized in 2019, while reversal of impairment loss on trade and other receivables recognized in 2018 amounted to ₱55.54 million. The carrying amounts of trade and other receivables amounted to ₱351.64 million and ₱343.36 million as of December 31, 2019 and 2018, respectively (see Note 5).

Estimating Impairment of Trade and Other Receivables prior to January 1 ,2018
The Company evaluates specific accounts where the Company has information that certain customers or third parties are unable to meet their financial obligations. Factors, such as the Company's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered in determining the amount of allowance for impairment that will be recorded. The allowance is re-evaluated and adjusted as additional information is received. Provision for impairment losses on trade and other receivables recognized amounted to ₱0.24 million in 2017.

Estimating NRV of Real Estate Inventories
The Company estimates adjustments for write-down of real estate inventories to reflect the excess of cost of real estate inventories over their NRV. NRV of real estate inventories are assessed regularly based on selling prices of real estate inventories in the ordinary course of business, less the costs of marketing and distribution. The Company provides write-down on the carrying amount whenever NRV of real estate inventories becomes lower than cost due to changes in price levels or other causes. No adjustments on real estate inventories were recognized in 2019, 2018 and 2017. The aggregate carrying amounts of real estate inventories, at cost, amounted to ₱884.39 million and ₱505.06 million as of December 31, 2019 and 2018, respectively (see Note 6).

Estimating Retirement Benefit Expense
The determination of the Company's retirement benefit obligation and expense is dependent on the management's selection of certain assumptions used by the actuary in calculating such amounts (see Note 13).

Retirement benefit expense amounted to ₱2.40 million, ₱2.22 million and ₱2.38 million in 2019, 2018 and 2017, respectively. Actuarial gains (loss) on retirement benefit plan recognized in other comprehensive income, net of tax, amounted to (₱1.08 million), ₱1.42 million and ₱2.11 million in 2019, 2018 and 2017, respectively. Retirement benefit obligation amounted to ₱25.69 million and ₱21.75 million as of December 31, 2019 and 2018, respectively (see Note 13).

Estimating Realizability of Deferred Tax Assets
The Company reviews the carrying amounts of its deferred tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The amount of deferred tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future planning strategies to which the deferred tax assets can be utilized as well as the volatility of government issuances on tax interpretations. As of December 31, 2019 and 2018, the Company's deferred tax assets amounted to ₱17.71 million and ₱19.53 million, respectively (see Note 14).

4. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	**₱4,074,862**	₱7,083,648
Cash equivalents	–	20,276,377
	₱4,074,862	₱27,360,025

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods up to three months depending on the immediate cash requirements of the Company and earn interest at the respective deposit rates.

Interest income earned from cash with banks and cash equivalents amounted to ₱0.18 million, ₱0.21 million and ₱0.62 million in 2019, 2018 and 2017, respectively (see Note 20).

5. Trade and Other Receivables

	2019	2018
Trade receivables (Notes 16 and 17)	**₱348,679,841**	₱339,974,722
Advances to officers and employees and others:	**2,960,681**	3,383,491
	351,640,522	343,358,213
Less noncurrent portion of trade receivables	**170,121,858**	181,392,613
Current portion	**₱181,518,664**	₱161,965,600

Trade receivables mainly represent the Company's outstanding balance in the sale of real estate. These receivables pertain to amounts due from SLRDI and customers.

Receivables from SLRDI pertain to collections by SLRDI from customers for remittance to the Company. These are noninterest-bearing and are due on demand.

Receivables from customers consist of interest-bearing and noninterest-bearing receivables which are collectible in monthly installments over a period of one to five years. Income from interests and penalties arising from late payment of these receivables amounting to ₱18.09 million, ₱25.99 million and ₱19.55 million in 2019, 2018 and 2017, respectively, are recognized as "Interests, penalties and other income" in the "Other Income (Expense)" section in the statement of comprehensive income (see Note 20).

Advances to officers and employees and others are noninterest-bearing receivables and are due within 12 months from the reporting date.

The movements in the allowance for impairment losses on receivables from customers determined through collective impairment assessment follow:

	2019	2018
Balance at beginning of year	**₱–**	₱55,542,580
Provision (write off)	**–**	(55,542,580)
Balance at end of year	**₱–**	₱–

In 2018, the Company sold non-operating properties to Fongfu Mining and Trading Co. (FMTC) located at Poblacion, Manticao, Misamis Oriental for ₱33.00 million which was fully collected in 2018 resulting to a gain of ₱29.91 million, net of applicable taxes (see Note 20). The Company has also written off its impaired receivables from PGMC.

6. Real Estate Inventories

This account pertains to land developed for residential subdivisions under the project agreement with SLRDI. As discussed in Note 17 to the financial statements, the Company, together with SLRDI, began their regular activities in 2005 based on their project agreement. As of December 31, 2019 and 2018, the residential area of Phase 1, Phase 2, and Phase 3 are 100% completed, based on the physical completion report provided by the project's supervising engineer.

The roll-forward of this account follows:

	2019	2018
Balance at beginning of year	**₱505,060,705**	₱859,601,308
Recognized as cost of real estate sold	**(6,868,274)**	(13,040,595)
Transfer from (to) investment properties (Note 9)	**384,352,025**	(346,337,462)
Others	**1,841,429**	4,837,454
Balance at end of year	**₱884,385,885**	₱505,060,705

Based on management's evaluation, the NRV of the real estate inventories is substantially higher than its cost, accordingly, no write-down was recognized in 2019, 2018 and 2017.

The amount of real estate inventories recognized under "Cost of real estate sold" in the statements of comprehensive income amounted to ₱6.87 million, ₱13.04 million and ₱21.42 million in 2019, 2018 and 2017, respectively.

7. Land Held for Future Development

This account comprises parcels of land acquired by the Company for future real estate development.

Movements in land held for future development are set-out below:

	2019	2018
Balance at beginning of year	**₱–**	₱654,148,925
Additions	–	17,138,600
Reclassification to investment properties (Note 9)	–	(671,287,525)
Balance at end of year	**₱–**	₱–

In compliance with PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*, land held for future development were reclassified to investment properties upon adoption of PIC Q&A 2018-11 (see Note 9).

8. Property and Equipment

2019

	Office Condominium Unit	**Building and Improvements**	**Hauling and Transportation Equipment**	**Machinery and Equipment**	**Furniture, Fixtures and Other Equipment**	**Total**
Costs:						
Balance at beginning of year	**₱46,047,004**	**₱15,290,341**	**₱8,578,786**	**₱4,486,929**	**₱9,741,482**	**₱84,144,542**
Additions	–	–	–	–	**204,562**	**204,562**
Disposals	–	**(3,146,943)**	**(3,733,380)**	**(4,486,929)**	**(3,288,570)**	**(14,655,822)**
Balance at end of year	**46,047,004**	**12,143,398**	**4,845,406**	–	**6,657,474**	**69,693,282**
Accumulated depreciation:						
Balance at beginning of year	**38,650,576**	**14,534,285**	**7,114,291**	**4,486,929**	**8,984,462**	**73,770,543**
Depreciation	**1,841,556**	–	**455,173**	–	**308,342**	**2,605,071**
Disposals	–	**(2,390,887)**	**(3,733,051)**	**(4,486,929)**	**(3,288,570)**	**(13,899,437)**
Balance at end of year	**40,492,132**	**12,143,398**	**3,836,413**	–	**6,004,234**	**62,476,177**
Net book value	**₱5,554,872**	**₱ –**	**₱1,008,993**	**₱–**	**₱653,240**	**₱7,217,105**

2018

	Office Condominium Unit	Building and Improvements	Hauling and Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Total
Costs:						
Balance at beginning of year	₱46,047,004	₱15,290,341	₱7,065,298	₱4,486,929	₱9,529,123	₱82,418,695
Additions	–	–	1,513,488	–	283,268	1,796,756
Disposals	–	–	–	–	(70,909)	(70,909)
Balance at end of year	46,047,004	15,290,341	8,578,786	4,486,929	9,741,482	84,144,542
Accumulated depreciation:						
Balance at beginning of year	36,808,696	14,191,067	6,475,889	4,486,929	8,755,236	70,717,817
Depreciation	1,841,880	343,218	638,402	–	300,135	3,123,635
Disposals	–	–	–	–	(70,909)	(70,909)
Balance at end of year	38,650,576	14,534,285	7,114,291	4,486,929	8,984,462	73,770,543
Net book value	₱7,396,428	₱756,056	₱1,464,495	₱–	₱757,020	₱10,373,999

Depreciation expense is presented as part of "General and administrative expenses" in the statements of comprehensive income.

Fully depreciated property and equipment with cost of ₱20.53 million and ₱7.49 million are still being used in operations as of December 31, 2019 and 2018, respectively.

No property and equipment were pledged as security to the Company's obligations in 2019 and 2018 .

9. Investment Properties

As of December 31, 2019 and 2018, the carrying value of investment properties amounted to ₱674.06 million and ₱1,023.07 million, respectively. Details of this account follow:

	2019	2018
Balance at beginning of year	**₱1,023,069,063**	₱5,444,076
Additions	**35,339,135**	–
Transfer from (to) real estate inventories (Note 6)	**(384,352,025)**	346,337,462
Transfer from land held for future development (Note 7)	–	671,287,525
Balance at end of year	**₱674,056,173**	₱1,023,069,063

Based on the latest appraisal report, the fair value of the investment properties amounted to ₱1.259 billion. The valuation performed was made by a qualified independent appraiser. The valuation techniques were in accordance with that recommended by the International Valuation Standards Committee and in accordance with PFRSs.

This is categorized as Level 3 in the fair value hierarchy as of December 31, 2019 and 2018.

Valuation technique used and key inputs to valuation on investment properties are as follows:

	Valuation technique	Significant unobservable inputs	Range
Land			
Residential	Market		₱800 - ₱375
Industrial	Data Approach/	Price per	₱1,750 - ₱600
Foreshore/beaches	Sales Comparison	square meter	₱2,500 - ₱1,800

For land, significant increases (decreases) in price per square meter would result in a significantly higher (lower) fair value of the property.

10. Accounts Payable and Accrued Expenses

	2019	2018
Trade payables	**₱23,791,837**	₱30,473,301
Accrued expenses	**2,947,052**	3,963,471
Others	**781,091**	1,212,922
	₱27,519,980	₱35,649,694

Trade payables are unsecured, noninterest-bearing and are generally due and demandable.

Accrued expenses include accruals for professional fees, utilities, salaries and wages and outside services.

Others include withholding taxes payable, SSS, Philhealth and HDMF contributions.

In 2019, long-outstanding trade payables and accrued expenses amounting to ₱9.28 million were reversed as management assessed that no future payables are to be claimed against the Company. These reversals were charged and recorded under "Interests, penalties, and other income" account in the 2019 statement of comprehensive income (see Note 20).

11. **Liability for Purchased Land**

This account pertains to the outstanding payable of the Company for the cost of land purchased recognized under "Investment properties". This consists of the following:

	2019	2018
Current	**₱115,305,608**	₱58,156,238
Noncurrent	**–**	55,481,641
Total	**₱115,305,608**	₱113,637,879

Liability for purchased land - Insular Life Insurance Company (ILIC - 2018) / (SLI - 2019)
On September 19, 2016, the Company entered into a contract for acquisition of a 580,154 sqm. land from Insular Life Insurance Company (ILIC) for a total gross consideration of ₱430.47 million.

On August 30, 2019, SLI paid the Company's remaining liability to ILIC amounting to ₱115.31 million, hence, extinguishing the Company's liability with ILIC. The Company's liability to SLI is non-interest bearing and payable upon issuance of license to sell (see Note 17).

Details of the liability for purchased land from SLI as of December 31,2019 and from ILIC as of December 31, 2018 follows:

	2019	2018
Principal	**₱115,305,608**	₱115,305,608
Unamortized discount:		
Balance at beginning of year	**5,866,584**	11,135,181
Amortization (Note 20)	**(2,840,374)**	(5,268,597)
Loss on extinguishment of debt	**(3,026,210)**	–
Balance at end of year	**–**	5,866,584
	115,305,608	109,439,024
Less noncurrent portion	**–**	55,481,641
	₱115,305,608	₱53,957,383

Liability for purchased land - third party
In 2015, the Company entered into a contract for acquisition of a 169,904 sqm. land, for a consideration of ₱61.03 million from a third party. As of December 31, 2018, the Company has already paid ₱56.33 million while the remaining balance of ₱4.70 million was recognized as "Liability for purchased land". In 2019, the Company derecognized the liability for purchased land from a third party, resulting to a gain on extinguishment of debt amounting to ₱4.20 million.

12. Related Party Transactions

Parties are considered related parties if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and other operating decisions. Parties are considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Company has Material Related Party Transactions Policies containing the approval requirements and limits on amounts and extent of related party transactions in compliance with the requirements under the Revised Securities Regulation Code Rule 68 and SEC Memorandum Circular 10, series of 2019.

The Company has an approval requirement such that material related party transactions shall be reviewed and endorsed to the BOD for approval. Material related party transactions are those transactions that meet the threshold value amounting to ₱50 million or 10% of the total assets, whichever is lower and other requirements as may be determined.

The Company has transactions with related parties in 2019 and 2018 as follows:

Category/ Related Party	**Year**	**Transactions**	**Outstanding balance**	**Terms**	**Conditions**
Stockholder					
Gregorio Araneta, Inc.					
Due to related parties	2019	**(₱16,940,482)**	**₱30,745,769**	Due and demandable; noninterest-bearing	Unsecured
		(₱16,940,482)	**₱30,745,769**		

Category/ Related Party	Year	Transactions	Outstanding balance	Terms	Conditions
Under common control					
HE Heacock Resources Corporation					
Advances	2018	₱7,932,240	₱–	Due and demandable; noninterest-bearing	Unsecured
Stockholder					
Gregorio Araneta, Inc.					
Due to related parties	2018	(20,922,876)	13,805,287	Due and demandable; noninterest-bearing	Unsecured
		₱12,990,636	₱13,805,287		

Compensation of Key Management Personnel
Short-term compensation of key management personnel of the Company amounted to ₱4.50 million, ₱4.50 million and ₱6.61 million in 2019, 2018 and 2017, respectively.

13. Retirement Benefit Obligation

The Company has an unfunded defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on the years of service and percentage of latest monthly salary.

The defined benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement in 2019, 2018 and 2017.

The movements of retirement benefit obligation recognized in the statements of financial position are as follows:

	2019	2018
Balance at beginning of year	**₱21,752,706**	₱21,555,685
Retirement benefit expense recognized in profit or loss:		
Current service costs	**1,283,319**	1,344,262
Net interest costs	**1,114,983**	877,590
	2,398,302	2,221,852
Remeasurement loss (gain) recognized in other comprehensive income	**1,540,332**	(2,024,831)
Balance at end of year	**₱25,691,340**	₱21,752,706

The components of retirement benefit expense recognized in profit or loss are as follows:

	2019	2018	2017
Current service costs	**₱1,283,319**	₱1,344,262	₱1,507,972
Net interest costs	**1,114,983**	877,590	870,655
	₱2,398,302	₱2,221,852	₱2,378,627

The principal assumptions used in determining the defined benefit obligation are as follows:

	2019	2018	2017
Discount rate	**4.75%**	7.28%	5.75%
Salary increase rate	**5.00%**	5.00%	6.70%

The sensitivity analysis below has been determined based on reasonably possible changes to each significant assumption on the retirement benefit obligation, assuming all other assumptions are held constant:

	Increase (decrease)	Amounts	
	in basis points	**2019**	2018
Discount rate	+100	**(₱879,513)**	(₱832,491)
	-100	**997,272**	948,760
Salary increase rate	+100	**1,099,843**	1,064,366
	-100	**(994,478)**	(954,255)

Shown below is the maturity analysis of the undiscounted benefit payments:

Years	**2019**	2018
Less than 1 year	**₱14,305,914**	₱12,874,007
1 year to less than 5 years	**6,371,710**	4,082,930
5 years to less than 10 years	**9,541,345**	2,248,838
10 years to less than 15 years	**3,598,982**	17,363,377
15 years to less than 20 years	**3,265,633**	2,320,995
20 years and above	**7,498,193**	16,843,956
Total	**₱44,581,777**	₱55,734,103

The Company does not expect to contribute to its retirement plan in 2020.

The average working life of employees as of December 31, 2019 and 2018 is 15.24 years and 14.55 years, respectively.

14. **Income Taxes**

The provision for current income tax represents minimum corporate income tax (MCIT) in 2019 and 2018 and regular corporate income tax in 2017.

The components of the Company's net deferred tax liability are as follows:

	2019	2018
Recognized in profit or loss:		
Deferred tax assets:		
Net operating loss carryover (NOLCO)	**₱7,362,896**	₱10,286,250
Retirement benefit recognized in profit or loss	**5,897,363**	5,177,872
MCIT	**2,642,404**	2,719,292
	15,902,663	18,183,414
Deferred tax liability:		
Effect of difference between revenue recognized for tax and accounting	**(54,729,662)**	(55,790,268)
	(38,826,999)	(37,606,854)
Recognized in other comprehensive income:		
Remeasurement losses on defined benefit obligation	**1,810,040**	1,347,940
Other components of equity	**(435,000)**	–
	1,375,040	1,347,940
Net deferred tax liability	**(₱37,451,959)**	(₱36,258,914)

A reconciliation of the statutory income tax expense at statutory rate of 30% to the provision for income tax expense is as follows:

	2019	2018	2017
At statutory income tax rate	**(₱1,501,882)**	₱14,186,319	(₱3,555,340)
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	**2,700,659**	1,705,603	2,551,672
Expired MCIT	**1,215,512**	–	–
Nontaxable income	**(55,520)**	(64,076)	(187,821)
	₱2,358,769	₱15,827,846	(₱1,191,489)

Details of the tax effects of the Company's NOLCO and MCIT which are available for offset against future taxable income and income tax payable, respectively, follow:

NOLCO

Year Incurred	Amount	Applied	Balance	Expiry Year
2018	10,286,250	(2,923,354)	7,362,896	2021

MCIT

Year Incurred	Amount	Expired	Balance	Expiry Year
2019	₱1,138,624	₱–	₱1,138,624	2022
2018	1,503,780	–	1,503,780	2021
2016	1,215,512	1,215,512	–	2019
	₱3,857,916	₱1,215,512	₱2,642,404	

15. Earnings (Loss) Per Share

	2019	2018	2017
Net income (loss)	**(₱7,365,041)**	₱31,459,882	(₱10,659,645)
Weighted average common shares	**1,951,387,570**	1,951,387,570	1,951,387,570
Basic and diluted earnings (loss) per share	**(₱0.0038)**	**₱0.0161**	(₱0.0055)

The Company does not have any dilutive common shares outstanding, accordingly, the basic and diluted earnings per share are the same.

The weighted average number of shares takes into account the weighted average effect of changes in number of shares outstanding during the year.

16. Financial Instruments and Capital Management

General
The Company has risk management policies that systematically view the risks that could prevent the Company from achieving its objectives. These policies are intended to manage risks identified in such a way that opportunities to deliver the Company's objectives are achieved. The Company's risk management takes place in the context of day-to-day operations and normal business processes such as strategic planning and business planning. Management has identified each risk and is responsible for coordinating and continuously improving risk strategies, processes and measures in accordance with the Company's established business objectives.

Financial Risk Management Objectives and Policies
The Company's principal financial instruments consist of cash and cash equivalents and trade and other receivables. The primary purpose of these financial instruments is to finance the Company's operations. The Company has other financial instruments such as equity instruments at FVOCI and accounts payable and accrued expenses and liability for purchased land which arise directly from its operations. The main risks arising from the Company's financial instruments are liquidity risk and credit risk.

As of December 31, 2019 and 2018, the Company has minimal exposure to any significant foreign currency risk because its financial instruments are denominated in Philippine peso, the Company's functional currency. As assessed by the management, the Company has minimal exposure to equity price risk for the equity instruments at FVOCI and as such, has no material impact to the financial statements. BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Company's credit standing.

The Company seeks to manage its liquid funds through cash planning on a monthly basis. The Company uses historical figures and experiences and forecasts from its collection and disbursement.

The following tables summarize the maturity profile of the Company's financial assets held for liquidity purposes based on contractual and undiscounted receivables and financial liabilities based on contractual and undiscounted payables.

2019

	On demand	**Within 1 year**	**More than 1 year**	**Total**
Financial assets:				
Cash and cash equivalents[1]	**₱4,042,581**	**₱–**	**₱–**	**₱4,042,581**
Trade and other receivables	**–**	**181,518,664**	**170,121,858**	**351,640,522**
	4,042,581	**181,518,664**	**170,121,858**	**355,683,103**
Financial liabilities:				
Accounts payable and accrued expenses[2]	**(26,993,941)**	**–**	**–**	**(26,993,941)**
Liability for purchased land	**(115,305,608)**	**–**	**–**	**(115,305,608)**
Due to related parties	**(30,745,769)**	**–**	**–**	**(30,745,769)**
	(173,045,318)	**–**	**–**	**(173,045,318)**
Net financial assets (liabilities)	**(₱169,002,737)**	**₱181,518,664**	**₱170,121,858**	**₱182,637,785**

[1] *Excluding cash on hand.*
[2] *Excluding withholding taxes and other statutory tax liabilities.*

2018

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash and cash equivalents[1]	₱27,306,779	₱–	₱–	₱27,306,779
Trade and other receivables	–	161,965,600	181,392,613	343,358,213
	27,306,779	161,965,600	181,392,613	370,664,992
Financial liabilities:				
Accounts payable and accrued expenses[2]	(35,278,808)	–	–	(35,278,808)
Liability for purchased land	–	(58,156,238)	(55,481,641)	(113,637,879)
Due to related parties	(13,805,287)	–	–	(13,805,287)
	(49,084,095)	(58,156,238)	(55,481,641)	(162,721,974)
Net financial assets (liabilities)	(₱21,777,316)	₱103,809,362	₱125,910,972	₱207,943,018

[1] *Excluding cash on hand.*
[2] *Excluding withholding taxes and other statutory tax liabilities.*

Credit Risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The credit risk of the Company is controlled by the approvals, limits and monitoring procedures. It is the Company's policy to enter into transactions with creditworthy parties to mitigate any significant concentration of credit risk. The Company ensures that credit transactions are made with parties with appropriate credit history and has internal mechanism to monitor granting of credit and management of credit exposures. The Company's maximum exposure to credit risk is equal to the carrying amounts of its financial assets (excluding cash on hand) amounting to ₱355.68 million and ₱370.66 million as of December 31, 2019 and 2018, respectively. The Company's financial assets are neither past due nor impaired as of December 31, 2019 and 2018.

Receivables that are neither past due nor impaired are due from creditworthy counterparties with good payment history with the Company. Such receivables are collectible and in good standing as assessed by the Company's management.

Cash in banks and short-term investments are deposits and investments, respectively, made with reputable banks duly approved by the BOD. As such, cash and cash equivalents are assessed by Management as high grade.

Capital Management

The Company considers the following items in the statements of financial position as its core capital:

	2019	2018
Capital stock	**₱1,951,387,570**	₱1,951,387,570
Additional paid-in capital	**201,228,674**	201,228,674
Deficit	**(387,121,803)**	(379,756,762)
	₱1,765,494,441	₱1,772,859,482

The primary objective of the Company's capital management is to ensure that it maintains a strong credit standing and stable capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2019, 2018 and 2017.

Below is the Company's track record of registration of securities under the Securities Regulation Code of the SEC:

Date of Registration (SEC Approval)	Description	Number of shares (in 000's)	Par value per share	Total amount (in 000's)
1988	Capital upon registration:			
	Class A	30,000,000	₱0.01	₱300,000
	Class B	20,000,000	0.01	200,000
		50,000,000		500,000
1992	Decrease in authorized capital stock and change of par value from ₱0.01 to ₱1.00			

Date of Registration (SEC Approval)	Description	Number of shares (in 000's)	Par value per share	Total amount (in 000's)
	Class A	150,000	1.00	150,000
	Class B	100,000	1.00	100,000
		250,000		250,000
1994	Change of par value from ₱1.00 to ₱0.30			
	Class A	150,000	0.30	45,000
	Class B	100,000	0.30	30,000
		250,000		75,000
1995	Increase in authorized capital stock and removal of classification of shares of stock	1,000,000	0.30	300,000
1996	Increase in authorized capital stock and change of par value from ₱0.30 to ₱1.00	5,000,000	1.00	5,000,000
Total authorized capital		5,000,000	₱1.00	₱5,000,000

As of December 31, 2019, there are 2,146 shareholders who hold 1,951,387,570 shares in the Company.

<u>Fair Value and Categories of Financial Instruments</u>
Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Trade receivables	**₱170,121,858**	**₱170,121,858**	₱181,392,613	₱181,392,613
Equity instruments	**5,681,898**	**5,681,898**	4,231,898	4,231,898
	₱175,803,756	**₱175,803,756**	₱185,624,511	₱185,624,511
Liability for purchased land	**₱115,305,608**	**₱115,305,608**	₱113,637,879	₱113,637,879

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents, Other Receivables, Due to Related Parties, and Accounts Payable and Accrued Expenses
The carrying amounts of these financial instruments approximate fair values due to the short-term nature of these financial instruments.

Noncurrent Trade Receivables
Fair value is based on discounted value of future cash flows using the prevailing interest rates for similar types of receivables as of the reporting date using the remaining terms of maturity. This is classified under level 3 of the fair value hierarchy.

Equity Instruments
Equity instruments are carried at fair value. The fair values of equity instruments at FVOCI are based on the quoted market prices. This is classified under level 2 of the fair value hierarchy.

Liability for Purchased Land
Fair value of liability for purchased land is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. This is classified under level 3 of the fair value hierarchy.

In 2019, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

17. **Project Agreements**

Agreement with SLRDI
The Company together with SLRDI began their activities based on their agreement dated June 5, 2003. Under the agreement, SLRDI will develop and sell certain parcels of land owned by the Company at its own cost. The Company is responsible for the delivery of the parcels of land free from liens and encumbrances including any claims of tenants or third parties and from any form of litigation. The project shall consist of the development of an exclusive mixed-use residential-commercial subdivision with a country club. Once developed, the property will be shared by the parties either through cash or lot overrides. The Company shall receive 40% of the net sales proceeds, in case of cash override, or 40% of the saleable lots, in case of a lot override, while SLRDI shall receive 60% of the net sales proceeds or the saleable lots. The Company opted to receive its share through a combination of cash override and lot override.

On April 27, 2006, SLRDI's application to obtain license to sell from the Housing and Land Use Regulatory Board was approved.

On January 29, 2013, SLRDI assigned its rights and interests over the sales proceeds from the sales of saleable area in Phase 3 to Sta. Lucia Land, Inc. The latter assumes the responsibility of collecting payments or amortizations and undertakes to remit the Company's share from the sales proceeds.

As at December 31, 2019, the project has been substantially completed.

The Company presently derives its revenue and the related costs solely from the sale of real estate under this joint operation. The Management uses 20% of the contract price as the collection threshold before a sale is recognized.

The Company's unsold real estate inventories amounting to ₱884.39 million and ₱505.06 million and trade receivables amounting to ₱348.68 million and ₱339.97 million as of December 31, 2019 and 2018, respectively, pertain to its share in the assets of the joint operation.

Sale of real estate and cost of real estate sold recognized amounted to ₱32.90 million and ₱6.87 million, respectively, in 2019, ₱62.51 million and ₱13.04 million, respectively, in 2018 and ₱60.97 million and ₱21.42 million, respectively, in 2017.

Agreement with SLI
On November 29, 2019, the Company entered into an agreement with SLI to develop a parcel of land owned by the Company. Under the agreement, SLI will develop the parcel of land into a residential subdivision with complete facilities and amenities, upon turnover of the property and upon securing

required clearance and permit to develop, and in which the property shall be free and clean from any lien and encumbrance. The agreement further states that the Company shall compensate SLI, in the form of lots consisting 60% of the net saleable area. The remaining 40% shall be the share of the Company.

On the same day, the Company entered into a memorandum of agreement with SLI, regarding the terms and conditions of the ₱115.31 million payment made on August 30, 2019 by SLI, in behalf of the Company to ILIC. The amount is payable either by way of proceeds from the sale of subdivided lots or by direct payment (see Note 11).

As at December 31, 2019, the project still has no substantial progress.

18. **Contingencies**

In the ordinary course of business, the Company has pending claims/assessments which are in various stages of discussion/protest/appeal with relevant third parties. Management believes that the bases of the Company's position are legally valid such that the ultimate resolution of these claims/assessments would not have a material effect on the Company's financial position and results of operations. No provision is recognized as the criteria under PAS 37 have not been met based on management's assessment.

19. **Segment Reporting**

The Company has only one reportable segment that sells only one product line.

All segment revenues are derived from external customers. The Company sells real estate properties. No specific customer pass the concentration threshold.

Operating results of the Company are regularly reviewed by the Company's Chief Operating Decision Maker, who is the Company's Chief Executive Officer, to make decisions about resources to be allocated to the segment and assess its performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the presentation and classification in the statements of comprehensive income.

The Company has only one geographical segment as all of its assets are located in the Philippines.

20. **Other Matters**

<u>Statements of Cash Flows</u>
There are no noncash investing activities in 2019 and 2017.

In 2018, noncash investing activity is:
- Transfer from "Land held for future development" to "Investment properties" amounting to ₱4.48 million.

In 2019, 2018 and 2017, the movements in the financing activity pertain to the advances made by/to the related parties to/by the Company for funding purposes and the payment for the liability of the purchased land. There are no noncash financing activities incurred during the year.

Interest, Penalties and Other Income

	2019	2018	2017
Interest income on receivables from customers (Note 5)	**₱18,087,920**	₱25,989,105	₱19,546,558
Reversal of long-outstanding trade payables and accrued expenses (Note 10)	**9,279,585**	–	–
Interest income on cash with banks and cash equivalents (Note 4)	**184,420**	207,381	616,384
Gain on sale of non-operating properties (Note 5)	–	29,912,234	–
	₱27,551,925	₱56,108,720	₱20,162,942

Interest Expense
Interest expense consists of amortization of discount liability for purchased land amounting to ₱2.84 million and ₱5.27 million in 2019 and 2018, respectively (see Note 11).

21. Events After the Reporting Date

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020. For selected areas, including Metro Manila, this was subsequently extended to May 31, 2020. The ECQ was subsequently lifted and replaced by a more lenient general community quarantine starting June 1, 2020. This measure is expected to result to disruptions to businesses and economic activities.

The Company implemented compliance measures to the community quarantine (CQ) protocols in conjunction with the National Government's strategy to flatten the curve and/or to combat the spread of outbreak as follows:

- Full shutdown of Makati Offices started on March 16, 2020. All employees received their salaries for the period March 16 to 31, 2020 in full.
- After March 31, 2020, employees were encouraged to utilize their available leave credits and work on a skeletal basis.
- Other measures are being implemented to ease the impact of the CQ on the employees, e.g. the early release of the prorated 13th month pay, extend cash advances to regular employees in the event that the CQ is extended.
- Business opportunity is paralyzed such as cash inflows. Presently, the Company concentrates on Cash Management to be able to rationalize and ensure availability of funds to sustain payments of employees' payroll.

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

At present, the CQ may have an effect on new/future land sales and collection of the Company's receivables depending on the capability of buyers to meet future payments. The Company will continue to monitor the situation, and should the CQ be further prolonged, the BOD may at any time form a Crisis Management Team/Committee that will focus on the impact to the Company's revenue and operations, or formulate assessment tools to measure and/or benchmark costs and expenses or anticipate scenario beyond "COVID-19", upon assumption of work and "Normal" operation.

22. Supplementary Tax Information Required under Revenue Regulations (RR) 15-2010

The Company reported and/or paid the following types of taxes in 2019:

VAT

a. The Company is VAT-registered with taxable sale of goods amounting to ₱46,857,602 with a corresponding output VAT of 12% amounting to ₱5,622,912.

   The Company's income that are subject to VAT are based on actual collections received, hence, may not be the same as the amounts recognized in the 2019 statement of comprehensive income. The Company's VAT exempt sales arise from the sale of real properties from the Company's project agreement with SLRDI.

   RA No. 8424, Tax Reform Act of 1997, Title IV, Chapter 1, Section 109(p) specified that sale of residential lot amounting to ₱1,500,000 and below for purposes of computing VAT are VAT exempt transactions and therefore, will not be subject to VAT. Provided, however that not later than January 31, 2009 and every three (3) years thereafter, the amounts stated herein shall be adjusted to its present value using the Consumer Price Index, as published by the National Statistics Office (NSO) and that such adjustment shall be published through revenue regulations to be issued not later than March 31 of each year.

   Per RR 13-2018, the threshold in computing VAT amounted to ₱1,500,000 effective January 1, 2018.

b. Input VAT

   The amount of input VAT claimed are broken down as follows:

Balance at January 1, 2019	₱75,385,117
Domestic purchases/payments for:	
Goods for resale or manufacture	193,369
Services lodged under other accounts	713,832
Balance at December 31, 2019	₱76,292,318

Other Taxes and Licenses

The following are the details of the Company's taxes and licenses:

A. Local	
Business taxes	₱3,164,082
Real estate taxes	2,749,036
Transfer tax of real property other than capital asset	2,015,996
Community tax certificate	10,500
Licenses, permits and fees	3,503
Others	254
B. National	
Annual registration	278,147
	₱8,221,518

Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

Withholding taxes on compensation and benefits	₱365,201
Expanded withholding taxes	30,593
	₱395,794

Tax Assessment and Cases

As at December 31, 2019, the Company has no pending final assessment notices. The Company is not aware of any tax case under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and the Stockholders
Araneta Properties, Inc.
21st Floor, Citibank Tower
Paseo de Roxas, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Araneta Properties, Inc. (the Company) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 23, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Revised Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-AR-1 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125311, January 7, 2020, Makati City

June 23, 2020

ARANETA PROPERTIES, INC.
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FINANCIAL STATEMENTS

Statements of Financial Position as of December 31, 2019 and December 31, 2018.

Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017.

Statements of Changes in Equity for the Years Ended December 31, 2019, 2018 and 2017.

Statements of Cash flows for the Years Ended December 31, 2019, 2018 and 2017.

Notes to Financial Statements

SUPPLEMENTARY SCHEDULES

Report of Independent Auditors on Supplementary Schedules

Schedules Required under Revised SRC Rule No. 68

A. Financial Assets
B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D. Long-term Debt
E. Indebtedness to Related Parties
F. Guarantees of Securities of Other Issuers
G. Capital Stock

<u>Additional Component</u>

I. Reconciliation of Retained Earnings Available for Dividend Declaration
II. Schedule of Financial Soundness Indicators
III. Map Showing the Relationships Between and Among the Companies in the Group, Its Ultimate Parent Company and Co-subsidiaries.

ARANETA PROPERTIES, INC.
SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON REVISED SRC RULE NO. 68
DECEMBER 31, 2019

Philippine Securities and Exchange Commission (SEC) issued the Revised Securities Regulation Code Rule No. 68 (Revised SRC Rule No. 68) which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II", respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by Revised SRC Rule No. 68, that are relevant to the Company. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Schedule A. Financial Assets

	Amount shown in the statement of financial position	Income received or accrued
Trade and other receivables	₱351,640,522	₱18,087,920

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

There are no advances to officers and employees with balances above ₱1,000,000 as at December 31, 2019.

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

The Company is not in the process of consolidation as at December 31, 2019.

Schedule D. Long-term Debt

The Company has no long-term debt as at December 31, 2019.

Schedule E. Indebtedness to Related Parties

The Company has no long-term loans from its related parties as at December 31, 2019.

Schedule F. Guarantees of Securities of Other Issuers

The Company did not guarantee any securities of other issuing entities as at December 31, 2019.

Schedule G. Capital Stock

Capital Stock						
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Capital Stock	5,000,000,000	1,951,387,570	–	1,026,277,497	10	–

SCHEDULE I

ARANETA PROPERTIES, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2019

Unappropriated Retained Earnings (Deficit), as adjusted to available for dividend distribution, beginning		**(₱379,756,762)**
Add: Net income actually earned/realized during the period		
Net income (loss) during the period closed to Retained Earnings		(7,365,041)
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	–	
Unrealized actuarial gain		
Fair value adjustment (M2M gains)	–	
Fair value adjustment of Investment Property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP-gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Sub-total	–	(7,365,041)
Add: Non-actual/Unrealized Losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP – loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
	–	
Net Income (Loss) Actual/Realized		(7,365,041)
Add (Less):		
Dividend declarations during the period	–	
Appropriations of Retained Earnings during the period	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	
TOTAL RETAINED EARNINGS (DEFICIT), END AVAILABLE FOR DIVIDEND		**(₱387,121,803)**

SGV
Building a better working world

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and the Stockholders
Araneta Properties, Inc.
21st Floor, Citibank Tower
Paseo de Roxas, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Araneta Properties, Inc. (the Company) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 23, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

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June 23, 2020

SCHEDULE II

ARANETA PROPERTIES, INC.

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

DECEMBER 31, 2019

Ratios	Formula	2019	2018
Current ratio	Current assets / Current liabilities	**6.58:1**	7.21:1
Acid test ratio	Current assets less real estate inventories / Current liabilities	**1.51:1**	2.52:1
Solvency ratio	Net income plus depreciation / Total liabilities	**N/A**	0.16:1
Debt - equity ratio	Total liabilities / Total equity	**0.13:1**	0.12:1
Asset-to-equity ratio	Total assets / Total equity	**1.13:1**	1.12:1
Interest rate coverage ratio	EBIT* / Interest expense	**N/A**	9.98:1
Return on assets	Net income / Average total assets	**N/A**	1.58%
Return on equity	Net income / Average total equity	**N/A**	1.79%
Net Income Margin	Net income / Revenue	**N/A**	0.50:1

**Earnings before interest and taxes (EBIT)*

SCHEDULE III

ARANETA PROPERTIES, INC.

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
DECEMBER 31, 2019

N/A