

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**


The management of **SOC LAND DEVELOPMENT CORPORATION** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, 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.


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

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

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.


WILFRIDO P. REYES
Chairman of the Board


JOHN PAUL G. REYES
President/CEO


BELEN R. CASTRO
Treasurer



Signed this day of April, 2019

**SOC Land Development
Corporation**
*(A Wholly Owned Subsidiary
of SOCResources, Inc.)*

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
SOC Land Development Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SOC Land Development Corporation (the Company), a wholly owned subsidiary of SOCResources, Inc., which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, 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, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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.

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.

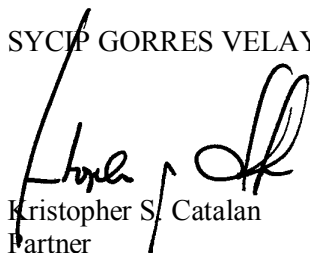
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on the Supplementary Information Required Under Revenue Regulations No. 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 No. 15-2010 in Note 21 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 SOC Land Development Corporation. 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.



Kristopher S. Catalan
Partner

CPA Certificate No. 109712

SEC Accreditation No. 1509-AR-1 (Group A),

October 18, 2018, valid until October 17, 2021

Tax Identification No. 233-299-245

BIR Accreditation No. 08-001998-109-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 7332534, January 3, 2019, Makati City

April 30, 2019



SOC LAND DEVELOPMENT CORPORATION
(A Wholly Owned Subsidiary of SOCResources, Inc.)
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱37,053,330	₱65,009,121
Receivables (Note 5)	25,440,866	53,340,008
Contract assets (Note 18)	26,744,405	–
Real estate inventories (Note 6)	1,066,908,248	1,092,869,024
Other current assets (Note 7)	61,640,048	54,212,964
Total Current Assets	1,217,786,897	1,265,431,117
Noncurrent Assets		
Receivables (Note 5)	15,000,000	61,841,846
Contract assets (Note 18)	32,712,621	–
Property and equipment (Note 8)	33,483,023	32,732,154
Other noncurrent assets (Note 9)	17,934,936	27,088,243
Total Noncurrent Assets	99,130,580	121,662,243
TOTAL ASSETS	₱1,316,917,477	₱1,387,093,360
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 10)	₱49,681,010	₱127,216,229
Contract liabilities (Note 18)	97,842,469	–
Due to Parent Company (Note 16)	1,001,200,241	1,110,528,901
Total Current Liabilities	1,148,723,720	1,237,745,130
Noncurrent Liabilities		
Retirement benefit obligation (Note 13)	360,257	1,006,386
Deferred tax liabilities - net (Note 15)	7,471,276	2,173,944
Total Noncurrent Liabilities	7,831,533	3,180,330
Total Liabilities	1,156,555,253	1,240,925,460
Equity		
Capital stock (Note 17)	41,229,800	41,229,800
Additional paid-in capital (Note 17)	281,068,200	281,068,200
Other comprehensive income	690,625	13,493
Deficit	(162,626,401)	(176,143,593)
Equity	160,362,224	146,167,900
TOTAL LIABILITIES AND EQUITY	₱1,316,917,477	₱1,387,093,360

See accompanying Notes to Financial Statements.



SOC LAND DEVELOPMENT CORPORATION
(A Wholly Owned Subsidiary of SOCResources, Inc.)
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
REVENUE FROM CONTRACTS WITH CUSTOMERS		
(Note 18)	₱137,575,939	₱—
REAL ESTATE SALES	—	64,931,959
COST OF REAL ESTATE SALES (Note 6)	(65,715,940)	(33,411,749)
GROSS PROFIT	71,859,999	31,520,210
Sales and marketing expenses (Note 11)	(24,511,564)	(22,455,660)
General and administrative expenses (Note 12)	(44,649,475)	(36,802,534)
Other income - net (Note 14)	16,068,483	13,297,061
	(53,092,556)	(45,961,133)
INCOME (LOSS) BEFORE INCOME TAX	18,767,443	(14,440,923)
PROVISION FOR INCOME TAX (Note 15)		
Current	243,118	1,276,648
Deferred	5,007,133	2,168,161
	5,250,251	3,444,809
NET INCOME (LOSS)	13,517,192	(17,885,732)
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>		
Actuarial gains (losses) on defined benefit plan, net of deferred income taxes (Note 13)	677,132	(151,598)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱14,194,324	(₱18,037,330)

See accompanying Notes to Financial Statements.



SOC LAND DEVELOPMENT CORPORATION**(A Wholly Owned Subsidiary of SOCResources, Inc.)****STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Capital Stock (Note 17)	Additional Paid-in Capital (Note 17)	Other Comprehensive Income	Deficit	Total
BALANCES AS AT DECEMBER 31, 2016	₱41,229,800	₱281,068,200	₱165,091	(₱158,257,861)	₱164,205,230
Net loss	—	—	—	(17,885,732)	(17,885,732)
Other comprehensive loss	—	—	(151,598)	—	(151,598)
Total comprehensive loss	—	—	(151,598)	(17,885,732)	(18,037,330)
BALANCES AS AT DECEMBER 31, 2017	41,229,800	281,068,200	13,493	(176,143,593)	146,167,900
Net income	—	—	—	13,517,192	13,517,192
Other comprehensive income	—	—	677,132	—	677,132
Total comprehensive income	—	—	677,132	13,517,192	14,194,324
BALANCES AS AT DECEMBER 31, 2018	₱41,229,800	₱281,068,200	₱690,625	(₱162,626,401)	₱160,362,224

See accompanying Notes to Financial Statements.

SOC LAND DEVELOPMENT CORPORATION
(A Wholly Owned Subsidiary of SOCResources, Inc.)
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	₱18,767,443	(₱14,440,923)
Adjustments for:		
Interest income (Note 14)	(7,731,902)	(7,936,157)
Depreciation (Note 8)	2,284,640	2,291,245
Gain on repossession (Note 14)	(1,147,589)	(4,170,772)
Retirement benefit expense (Note 13)	321,202	241,270
Operating income (loss) before working capital changes	12,493,794	(24,015,337)
Decrease (increase) in:		
Receivables	74,740,988	35,193,094
Contract assets	(59,457,026)	–
Real estate inventories	27,108,365	(6,576,656)
Other current assets	5,018,241	14,644,217
Increase (decrease) in:		
Accounts payable and other current liabilities	(77,535,219)	13,495,315
Contract liabilities	97,842,469	–
Cash flows generated from operations	80,211,612	32,740,633
Interest received	7,731,902	7,936,157
Income taxes paid, including creditable withholding taxes	(3,535,136)	(6,037,328)
Net cash flows from operating activities	84,408,378	34,639,462
CASH FLOWS USED IN INVESTING ACTIVITY		
Acquisitions of property and equipment (Note 8)	(3,035,509)	(400,410)
CASH FLOWS USED IN FINANCING ACTIVITY		
Payment of advances from Parent Company (Note 16)	(109,328,660)	(125,348,249)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,955,791)	(91,109,197)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	65,009,121	156,118,318
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱37,053,330	₱65,009,121

See accompanying Notes to Financial Statements.



SOC LAND DEVELOPMENT CORPORATION

(A Wholly Owned Subsidiary of SOCResources, Inc.)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information, Status of Operations and Approval and Authorization for Issuance of the Financial Statements

Corporate Information

SOC Land Development Corporation (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 25, 2010. The primary purpose of the Company is to deal and engage in the real estate business.

The Company is a wholly owned subsidiary of SOCResources, Inc. (SRI; the Parent Company). SRI, a corporation duly organized under the laws of the Philippines, with registered address at 2nd Floor, Enzo Building, 399 Senator Gil Puyat Avenue, Makati City, is registered primarily to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, in particular shares of stocks, voting trust certificates, bonds, debentures, notes, evidences of indebtedness of associations and corporations, domestic or foreign, without being a stockbroker or dealer, and to issue in exchange therefore shares of the capital stock, bonds, notes, or other obligations and/or assets of the Parent Company and while the owner thereof, to exercise all the rights, powers, and privileges of ownership, including the right to vote any shares of stock or voting trust certificates so owned, and to do every act and thing that may generally be performed by entities known as “holding companies”. The former primary purpose of oil and gas exploration was reclassified as among the secondary purposes of the Parent Company.

The registered office address of the Company is 2nd Floor, Enzo Building, 399 Senator Gil Puyat Avenue, Makati City.

Status of Operations

In 2011, the Company undertook its maiden project called “Anuva Residences in Barangay Buli, Alabang, Muntinlupa City. The project involves the development of a 2.4 hectare parcel of land that will have four tandem buildings and an estimated investment cost of 5 billion pesos to generate approximately 7 billion pesos in sales over its production cycle. Initially targeted for completion within five years from launch, the production cycle of the project is extended and re-planned for completion by 2025.

On July 12, 2011, the groundbreaking ceremony for the first tower, Anala was held and the structural works was completed in 2014.

On September 2, 2011, the Company's Phase 1 project was duly registered with the Board of Investments (BOI) as a New Developer of Low - Cost Mass Housing on a Non-Pioneer Status under the Omnibus Investments Code of 1987 (Executive Order No. 226). With the registration, the Company was entitled to an Income Tax Holiday (ITH) for three years from October 2011 or actual start of commercial operations or selling, whichever is earlier, but in no case earlier than the date of registration. Under the specific terms and conditions of the registration, the Company shall submit proof of compliance that it has developed socialized housing project and accomplished corporate social responsibility activities that were duly identified by BOI in conjunction with the entitlement of ITH.

On December 14, 2011, the Housing and Land Use Regulatory Board released the Company's License to Sell for the Anala Tower with targeted completion date in 2015.



On August 14, 2013, the Company opted to surrender the original copy of the Certificate of Registration no. 2011-193 issued to the Company as New Developer of Low-Cost Mass Housing Project cancelled the Company's entitlement to an ITH for three years.

In 2014, the Company ventured into horizontal housing development through Althea Residences in Binan, Laguna with an initial offering of 214 commercial and residential lots and house and lot packages and covered by HLURB License To Sell No. 029073 released on September 22, 2014. On the same year, the second tower of Anuva Residences, the Azalea Tower with 618 units of combined studio, 1-bedroom and 2-bedroom units was offered for sale and a License To Sell was issued by HLURB on July 31, 2015.

In 2018, a portion of Althea Residences was reconfigured from 17 commercial lots into 32 townhouse and lots units that offered a better return for the Company. Althea was also geared for expansion on the adjoining 2.2 hectare property offering an additional 132 residential lots and house and lot packages with the necessary permits and license expected to be completed by mid-2019.

As of the end of 2018, the Company is also studying the feasibility of developing in other areas with potential sites in consideration in Baguio, Taft Avenue and Quezon City, among other places.

Approval of the Financial Statements

The financial statements of the Company as at and for the years ended December 31, 2018 and 2017 were approved and authorized for issue by the Board of Directors (BOD) on April 30, 2019.

2. Summary of Significant Changes in Accounting Policies and Disclosures

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost basis. The financial statements are presented in Philippine peso (₱), which is the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), which include the availment of the relief granted by the Securities and Exchange Commission (SEC) under Memorandum Circular Nos. 14-2018 and 3-2019 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).

Changes in Accounting Policies and Disclosures

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, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

Effective beginning or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.



- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9, *Financial Instruments*, with PFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, PFRS 9, before implementing PFRS 17, *Insurance Contracts*, which replaces PFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach.

- Amendments to Philippine Accounting Standard (PAS) 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC)-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

- PFRS 9, *Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied PFRS 9 using the modified retrospective approach, with an initial application date of January 1, 2018. In accordance with the transitional provisions of PFRS 9, comparative figures have not been restated.



The impact of the adoption is described below:

(a) Classification and measurement

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018, and then applied to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact to the Company.

As a result of adoption of PFRS 9, the Company's cash and cash equivalents, receivables (excluding advances to suppliers and contractors), and refundable deposits (included under other current assets) classified as loans and receivables as at December 31, 2017 are classified and measured as debt instruments at amortized cost beginning January 1, 2018. These are held to collect contractual cash flows and give rise to cash flows representing SPPI.

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

In summary, upon the adoption of PFRS 9, the Company had the following required or elected reclassifications as at January 1, 2018:

		PFRS 9 measurement category		
	Balances	Fair value through profit or loss	Amortized cost	Fair value through OCI
PAS 39 measurement category				
Loans and receivables				
Cash in banks and cash equivalents	₱64,904,208	₱—	₱64,904,208	₱—
Receivables*	109,028,840	—	109,028,840	—
Refundable deposits	2,685,852	—	2,685,852	—
	₱176,618,900	₱—	₱176,618,900	₱—

*Excluding advances to suppliers and contractors.

(b) Impairment

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to record an allowance for impairment losses for all loans and other debt financial assets not held at fair value through profit or loss (FVTPL). 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. The shortfall is then discounted at an approximation to the asset's original effective interest rate (EIR).



The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For installment contracts receivables (ICR) presented under receivables and contract assets, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company used the vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given ICR 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 probability model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as forward looking data on interest rate, unemployment rate and inflation rates were added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

The key inputs in the model include the Company's definition of default and historical data of 5 years for the origination, maturity date and default date. The Company considers an ICR in default when contractual payment are 60 days past due. 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 before taking into account any credit enhancements held by the Company.

The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on facility/collateral type and completion. In calculating the recovery rates, the Company considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, association dues, refurbishment, payment required under Maceda law, cost to complete (for incomplete units).

As these are future cash flows, these are discounted back to the time of default using the appropriate EIR, usually being the original EIR or an approximation thereof.

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

For other financial assets such as accrued interest receivable and others, expected credit losses (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).

The application of the ECL model does not have significant impact on the Company's allowance for credit losses as of December 31, 2018. No provision for credit losses in 2018 using the ECL model has been recorded.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts not yet completed as at January 1, 2018.

On February 14, 2018, the Philippines Interpretation Committee (PIC) issued PIC Q&A 2018-12 (PIC &A) which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. On October 25, 2018 and February 8, 2019, the Philippine SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three years until December 31, 2020:

- a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E
- b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
- c. Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H

Under the SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: PFRS 15 - *Accounting for Cancellation of Real Estate Sales* was also deferred.

The SEC Memorandum Circulars also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

- a. The accounting policies applied
- b. Discussion of the deferral of the subject implementation issues in the PIC Q&A
- c. Qualitative discussion of the impact in the financial statements had the concerned application guideline in the PIC Q&A been adopted.
- d. Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, *Accounting Policies, Change in Accounting*



Estimates and Error, i.e., retrospectively, together with the corresponding required quantitative disclosures.

Except for the CUSA charges discussed under PIC Q&A No. 2018-12-H which applies to leasing transactions, the above deferral will only be applicable for real estate sales transactions.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Company availed of the deferral of adoption of the above specific provisions of PIC Q&A. Had these provisions been adopted, the mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using EIR method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.

The effect of adopting PFRS 15 as at January 1, 2018, was as follows:

	December 31, 2017	Transition Adjustments	January 1, 2018
Receivables	₱115,181,854	(₱70,200,604)	₱44,981,250
Contract assets	—	70,200,604	70,200,604
Customer's deposit	(72,696,975)	(72,696,975)	—
Unearned income	2,105,565	(2,105,565)	—
Contract liabilities	—	74,802,540	74,802,540

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended December 31, 2018 as a result of the adoption of PFRS 15. The adoption of PFRS 15 did not have a material impact on the Company's statement of comprehensive income and statement of cash flows. The first column shows amounts prepared under PFRS 15 and the second column shows what the amounts would have been had PFRS 15 not been adopted:

	Amounts prepared under		Increase (Decrease)
	PFRS 15	Previous PFRS	
ASSETS			
Current Assets			
Receivables (Note 5)	₱25,440,866	₱52,185,271	(₱26,744,405)
Contract assets (Note 18)	26,744,405	—	26,744,405
Total Current Assets	52,185,271	52,185,271	—
Noncurrent Assets			
Receivables (Note 5)	15,000,000	47,712,621	(32,712,621)
Contract assets (Note 18)	32,712,621	—	32,712,621
Total Noncurrent Assets	47,712,621	47,712,621	—
TOTAL	₱99,897,892	₱99,897,892	₱—

(Forward)



	Amounts prepared under		Increase (Decrease)
	PFRS 15	Previous PFRS	
LIABILITIES			
Current Liabilities			
Accounts payable and other current liabilities (Note 10)	₱49,681,010	₱147,523,479	(₱97,842,469)
Contract liabilities (Note 18)	97,842,469	–	97,842,469
TOTAL	₱147,523,479	₱147,523,479	₱–

The adjustments as at January 1, 2018 represents the Company's recording as contract asset (instead of sales contract receivables) any excess of progress of work over the right to an amount of consideration that is unconditional. Meanwhile, the excess of collection over progress of work is recorded as contract liability.

Before the adoption of PFRS 15, contract asset is not presented separately from installment contract receivables while contract liabilities are presented as customers' deposit and unearned income. The above resulted in recording of contract assets of ₱70.20 million and contract liabilities of ₱74.80 million as of January 1, 2018.

Current versus Noncurrent Classification

The Company presents assets and liabilities in the balance sheet based on whether it is current and noncurrent 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 twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

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 twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and deferred tax liabilities and accrued retirement benefit liability are classified as noncurrent assets and liabilities, respectively.

Fair Value Measurement

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

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



The principal or the most advantageous market must be accessible to the 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 in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the 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 the end of each reporting period.

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.

As of December 31, 2018 and 2017, the Company has no non-financial asset carried at fair value. In addition, the Company has neither assets nor liabilities with recurring and non-recurring fair value measurements.

Cash and Cash Equivalents

Cash includes cash on hand and with 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 acquisition and that are subject to an insignificant risk of changes in value.

Financial Instruments

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

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

a. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVTPL and FVOCI.



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. 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 are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 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

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

- Financial assets at amortized cost (debt instruments)
- FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Company. 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; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that SPPI and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes cash and cash equivalents, receivables and refundable deposits.

Derecognition

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

- the rights to receive cash flows from the asset have expired; or,
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks



and rewards of the asset, or (b) the Company 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 of 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 recognized 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.

Impairment of financial assets

The Company recognizes an allowance for 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 EIR. 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).

The ECL allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' ECL. Both life time ECL and 12 months' ECL are calculated on either an individual basis or a collective basis, depending on the nature of the financial instruments.

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

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

The Company considers a financial asset in default when contractual payments are 60 days past due. 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 before taking into account any credit enhancements held by the Company.



A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

b. Financial liabilities

Initial recognition and measurement

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

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

The Company's financial liabilities include accounts payable and other current liabilities (excluding government payables) and due to Parent Company.

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition

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

c. Offsetting of financial instruments

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

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

Date of Recognition

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.



All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial Recognition of Financial Instruments

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 assets at fair value through profit or loss (FVTPL), the initial measurement of financial assets includes transaction costs.

“Day 1” Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss unless it qualifies for the recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the amount of “Day 1” difference.

Classification of Financial Instruments

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

Financial assets are further classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial liabilities are classified as financial liabilities at FVTPL or other financial liabilities.

The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

The Company has no financial assets or liabilities at FVTPL, HTM investments and AFS financial assets as of December 31, 2018 and 2017.

Loans and Receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the EIR method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the EIR. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2017, the Company’s loans and receivables consist of cash and cash equivalents, receivables (excluding advances to suppliers and contractors) and refundable deposits under “other current assets” in the statement of financial position.



Other Financial Liabilities

Other financial liabilities pertain to issued financial instruments or their components that are not classified or designated at FVTPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

This category includes loans and borrowings which are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method.

Gains or losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2017, the Company's other financial liabilities consist of accounts payable and other current liabilities, excluding government payables and due to Parent Company.

Impairment of Financial Assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in profit or loss.

Financial Assets Carried at Amortized Cost

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest (the EIR computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to 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.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and



there is 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.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

- the rights to receive cash flows from the asset have expired;
- the 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 and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

Financial Liabilities

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

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

Real Estate Inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV).

Cost includes:

- Cost of land
- Amounts paid to contractors for construction
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale. The amount of any write-down of inventories to NRV and all losses of inventories are recognized in profit or loss in the year the write-down or loss occurs.



The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

Reposessed Inventories

Reposessed inventories represent the acquisition costs of properties sold but subsequently reacquired by the Company due to buyer's default on payment of monthly amortization. These are measured at fair value at the time of repossession. Any resulting gain or loss arising from the difference between the fair value at the time of repossession and the remaining receivable due from the buyers is credited or charged to "Other income" in the profit or loss.

Advances to Suppliers and Contractors

Advances to suppliers and contractors represent advance payments on services to be incurred in connection with the Company's operations. These are charged to expense in profit or loss, or capitalized to real estate inventories in the statement of financial position, as appropriate, when the services are rendered, which is normally within 12 months.

Creditable Withholding Taxes (CWT)

CWTs are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source, subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within 12 months are classified as current assets. Otherwise, these are classified as other noncurrent asset. CWTs are classified in the "Other current assets" account in the statement of financial position.

Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable. 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 from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

The input VAT recoverable from the taxation authority is included as part of "Other current assets" or "Other noncurrent assets" in the statement of financial position.

Property and Equipment

Property and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment losses. Land is stated at cost less any accumulated impairment losses.

The initial cost of property and equipment includes its purchase price, including import duties, nonrefundable purchase taxes and any costs directly attributable to bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income in the period 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 the property and equipment.



Depreciation commences when an asset is in the location and condition capable of being operated in the manner intended by management. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, except for leasehold improvements which are amortized on a straight-line basis over the term of the lease or the estimated lives of the improvements, whichever is shorter, as follows:

Category	Number of Years
Building	20
Office and computer equipment	1-3
Transportation equipment	5
Leasehold improvements	2 or lease term, whichever is shorter

Depreciation ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and the date that the asset is derecognized.

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 profit or loss in the year the asset is derecognized. Fully depreciated items are retained as property and equipment until these are no longer in use.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses from continuing operations are recognized in profit or loss.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.



Retirement Benefits Costs

The Company has an unfunded, non-contributory, defined benefit retirement obligation.

The Company recognizes the net defined benefit liability or asset which is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is determined using the projected unit credit method.

Retirement benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

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

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

Net interest on the net defined benefit liability or asset is recognized as an expense or income in the statement of comprehensive income.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income (OCI) in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Capital Stock

The Company has issued common stock that is classified as equity. Common stock is measured at par value for all shares issued.

When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

Subscription receivable pertains to the uncollected portion of the subscribed shares. Subscription receivable is presented as deduction from equity if the subscription receivable is not expected to be collected within 12 months after the reporting period. Otherwise, the subscription receivable is presented as current asset.



Retained Earnings (Deficit)

The amount included in deficit includes profit (loss) and reduced by dividends. Dividends are recognized as a liability and deducted from equity when declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings (deficit) may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. When the retained earnings account has a debit balance, it is called a "deficit". A deficit is not an asset but a deduction from equity.

Other Comprehensive Income (OCI)

OCI comprises items of income and expenses, including reclassification adjustments, which are not recognized in profit or loss as required or permitted by other standards.

Revenue Recognition

Revenue Recognition effective January 1, 2018

Revenue from Contract with Customers

The Company primarily derives its real estate revenue from the sale of horizontal real estate projects. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements.

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

Real estate sales

The Company derives its real estate revenue from sale of lots, house and lot, condominium units and parking lot. 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 input method. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation. Progress is measured based on actual resources consumed such as materials, labor hours expended and actual overhead incurred relative to the total expected inputs to the satisfaction of that performance obligation, or the total estimated development costs of the real estate project. The Company uses the cost accumulated by the accounting department to determine the actual resources used. Input method exclude the effects of any inputs that do not depict the entity's performance in transferring control of goods or services to the customer.

Estimated development costs of the real estate project include costs of land, land development, building costs, professional fees, depreciation of equipment directly used in the construction, payments for permits and licenses. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts, form part of total project costs on a prospective basis.

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



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

Cost recognition

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

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

Contract Balances

Receivables

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

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services 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. The Company has determined that commissions paid to marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the “Selling and marketing expense” account in the statement of comprehensive income.

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

Contract fulfillment assets

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



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

The Company's contract fulfillment assets pertain to connection fees and land acquisition costs.

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

The Company amortizes contract fulfillment assets and capitalized costs to obtain a contract to cost of sales over the expected construction period using percentage of completion following the pattern of real estate revenue recognition. The amortization is included within cost of sales.

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

At each reporting date, the Company determines whether there is an indication that contract fulfillment asset or 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, there 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 Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific revenue recognition criteria should also be met before revenue is recognized.

Real Estate Sales

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



The POC 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. The Company start recognizing income under POC when the equitable interest has been transferred to the buyer, construction is beyond the preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliable. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of actual costs incurred to date over the estimated total costs to complete the project.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Company's statement of financial position as part of real estate inventories and the deposit as part of as "Customers' deposits" included under the "Accounts payable and other current liabilities" account in the statement of financial position.

Interest Income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income is recorded using the EIR. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Other Income

Other income includes gain arising from forfeiture or cancellation of prior years' real estate sales.

Cost and Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Cost of Real Estate Sales

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

The cost of real estate sales 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 POC used for revenue recognition purposes.

Any changes in estimated development costs used in the determination of the amount of revenue and cost are recognized in the statements of comprehensive income in the period in which the change is made.

Sales and Marketing Expenses

Expenses incurred in the direct selling and marketing activities are generally recognized when the service is incurred or the expense arises.

General and Administrative Expenses

Expenses incurred in the general administration of day-to-day operation of the Company are generally recognized when the service is used or the expense arises.



Leases

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

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

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

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

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in the Company's profit or loss on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized.

Income Taxes

Current Income Tax

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

Current income tax for current and prior periods shall, to the extent unpaid, be recognized as a liability and is presented as "Income tax payable" account in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset and is presented as part of "Other current assets" account in the statement of financial position.

Deferred Income Tax

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

Deferred income 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 income tax relating to items recognized directly in equity is recognized in OCI and not in profit or loss.



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

The carrying amount of deferred income 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 income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded in the foreign exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the reporting date. Foreign currency gains or losses are recognized in profit or loss.

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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events After the Reporting Date

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

Future Changes in Accounting Policies

The following standards and interpretations will become effective subsequent to 2018. Except as otherwise indicated, the Company does not expect the adoption of the applicable new and amended PFRS and Philippine Interpretations to have a significant impact on the financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition



exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- 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*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*



3. Significant Accounting Judgments, Estimates and Assumptions

The 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

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

Existence of a contract (PFRS 15)

The Company's primary document for a contract with a customer is a signed contract to sell. It has determined, however, that in cases wherein contract to sell are not signed by both parties, the combination of its other signed documentation such as reservation agreement, official receipts, quotation sheets and other relevant documents, would contain all the criteria to qualify as contract with the customer under PFRS 15.

In addition, part of the assessment process of the Company before revenue recognition is to assess the probability that the Company will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

Revenue recognition method and measure of progress (PFRS 15)

The Company concluded that revenue for real estate sales 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.

The Company has determined that input 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.

The Company's real estate sales amounted to ₱137.58 million in 2018.

Identifying performance obligation (PFRS 15)

The Company has various contracts to sell covering (a) serviced lot, (b) serviced lot and house, (c) condominium unit and (d) parking lot. The Company concluded that there is one performance obligation in each of these contracts because, for serviced lot, the developer integrates the plots it sells with the associated infrastructure to be able to transfer the serviced land promised in the contract. For the contract covering service lot and house and condominium unit, the developer has the obligation to



deliver the house or condominium unit duly constructed in a specific lot and fully integrated into the serviced land in accordance with the approved plan. Included also in this performance obligation is the Company's service to transfer the title of the real estate unit to the customer.

Revenue Recognition (PAS 18)

Selecting the appropriate revenue recognition method for particular real estate transaction requires certain judgments based on the following, among others:

- *Buyer's continuing commitment to the sales agreement*
Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that gives the buyer a sufficient stake in the property that risk of loss through default motivates the buyer to honor his obligation. Collectability is also assessed by considering factors such as the credit standing of the buyer, age, and location of the property.

For sale of real estate properties, in determining whether the sales prices are collectible, the Company considers that initial and continuing investments by the buyer of about 25% would demonstrate the buyer's commitment to pay.

- *Stage of completion of the project*
The Company commences the recognition of revenue from sale of uncompleted projects where the POC method is used when the POC, as determined by project engineers employed by the Company, is already beyond the preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the house unit foundation are finished).

The Company's real estate sales amounted to ₱64.93 million in 2017.

Assessment of Impairment of Nonfinancial Assets

The Company assesses impairment on other current assets and property and equipment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be 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 estimated recoverable amount. The estimated recoverable amount is computed using the asset's fair value less costs to sell or 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 costs of disposal while value-in-use is the present value of estimated future net cash inflows 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 estimates and assumptions that can materially affect the financial statements.

As of December 31, 2018 and 2017, there were no impairment indicators that would lead to impairment analysis.



Estimates and Assumptions

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

Revenue and Cost Recognition

The Company's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Company's revenue and cost from real estate sales recognized based on the percentage of completion is determined based on actual costs incurred to date over the estimated total costs to complete the project reconciled with the engineer's judgment and estimates on the physical portion of contract work done if the development is beyond the preliminary stage.

The Company estimates the POC of ongoing projects using input method for purposes of accounting for the estimated costs of development as well as revenue to be recognized. Actual costs of development could differ from these estimates. Such estimates will be adjusted accordingly when the effects become reasonably determinable. The POC is based on the technical evaluation of the Company's project engineer as well as management's monitoring of the costs, progress and improvements of the projects.

Real estate sales and cost of real estate sales amounted to ₱137.58 million and ₱65.72 million in 2018 and ₱64.93 million and ₱33.41 million in 2017, respectively (see Notes 6 and 18).

Provision for ECL (PFRS 9) - Effective starting January 1, 2018

The Company uses a vintage analysis to calculate ECLs for trade receivables and contract assets. The Company used the vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given ICR pool.

The vintage analysis is initially based on the Company's historical observed default rates. The Company calibrates the vintage to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product, bank lending rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in the real estate sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions 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. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in Note 5.

No allowance for ECL was recognized in 2018. The carrying values of receivables as of December 31, 2018 amounted to ₱40.44 million (see Note 5).

Impairment Losses on Receivables – PAS 39

The Company reviews the balance of receivables at each reporting date to assess whether impairment losses should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a



greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Company's assessment of the accounts since their inception.

There was no allowance for impairment losses on receivables as of December 31, 2017. The carrying amount of receivables amounted to ₱115.18 million as of December 31, 2017 (see Note 5).

Measurement of Net Realizable Value of Real Estate Inventories

The Company adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of the inventories. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Real estate inventories at cost amounted to ₱1,066.91 million and ₱1,092.87 million as of December 31, 2018 and 2017, respectively. In 2018 and 2017, the Company assessed that the NRV of real estate inventories is higher than cost, hence the Company did not recognize any losses on write down of real estate inventories (see Note 6).

Estimation of Useful Lives of Property and Equipment, Excluding Land

The Company estimates the useful lives of the significant parts of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Company's estimation of the useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful life of property and equipment in 2018 and 2017. The carrying values of depreciable property and equipment amounted ₱17.15 million and ₱16.40 million as of December 31, 2018 and 2017, respectively (see Note 8).

Recognition of Deferred Income Tax Assets

The Company reviews the carrying amounts of deferred income tax assets at each financial reporting date and reduces the amounts to the extent that they are no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized.

The Company recognized deferred income tax assets of ₱0.11 million and ₱5.37 million as of December 31, 2018 and 2017, respectively (see Note 15).

4. Cash and Cash Equivalents

	2018	2017
Cash on hand	₱146,763	₱104,913
Cash in banks	23,906,567	30,752,101
Cash equivalents	13,000,000	34,152,107
	₱37,053,330	₱65,009,121



Cash in banks earn interest at the respective bank deposits rates. Cash equivalents are made for varying period of up to three months and earns interest at rate of 2% in 2018 and 2017. Interest income earned from cash and cash equivalents amounted to ₱1,267,608 and ₱20,077 in 2018 and 2017, respectively (see Note 14).

5. Receivables

	2018	2017
Advances to:		
Officers and employees	₱15,107,670	₱15,770,582
Suppliers and contractors	6,012,926	6,153,014
Agents	2,047,642	1,031,968
Installment contract receivables	3,631,778	74,438,231
Other receivables	13,640,850	17,788,059
Total	40,440,866	115,181,854
Less current portion of receivables	(25,440,866)	(53,340,008)
	₱15,000,000	₱61,841,846

- Advances to officers and employees are noninterest-bearing and will generally be settled through liquidation and salary deduction, respectively. These receivables will be settled within the next financial year.
- Installment contract receivables arises from sale of real estate and is collectible in monthly installments over a period ranging from one to 10 years which bears monthly interest rates of 14.0% to 16.0% in 2018 and 2017 computed on the diminishing balance.

Interest income earned amounted to ₱6.46 million and ₱7.92 million in 2018 and 2017, respectively (Note 14).

- Advances to suppliers and contractors are payments made to suppliers as contracts with them generally require advance payment. The amount will be applied as part of the full payment of the contracted price.
- Other receivables consist mostly of receivables from unit owners.

6. Real Estate Inventories

	2018	2017
Condominium and residential units	₱588,109,747	₱592,595,104
Subdivision projects under development	341,723,243	340,795,837
Lot inventory	137,075,258	159,478,083
	₱1,066,908,248	₱1,092,869,024

A summary of the movement in real estate inventories is set out below:

	2018	2017
Balances at beginning of year	₱1,092,869,024	₱1,082,121,596
Development costs incurred	24,513,196	25,614,877
Disposals recognized as cost of real estate sales	(65,715,940)	(33,411,749)
Repossessioned inventories	15,241,968	18,544,300
	₱1,066,908,248	₱1,092,869,024



7. Other Current Assets

	2018	2017
Input VAT- net of noncurrent portion	₱34,486,320	₱32,018,872
Creditable withholding taxes	23,936,493	19,430,635
Refundable deposits	3,106,524	2,685,852
Others	110,711	77,605
	₱61,640,048	₱54,212,964

Refundable deposits are composed of security deposits related to the Company's lease agreement and utility deposits to Manila Electric Corporation.

8. Property and Equipment

December 31, 2018

	Land	Building	Office and Computer Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost						
Balances at beginning of year	₱16,336,217	₱18,734,059	₱7,771,572	₱741,071	₱5,041,095	₱48,624,014
Additions	—	1,319,221	613,392	1,102,896	—	3,035,509
Disposals	—	—	(17,634)	—	—	(17,634)
Balances at end of year	16,336,217	20,053,280	8,367,330	1,843,967	5,041,095	51,641,889
Accumulated depreciation						
Balances at beginning of year	—	5,407,848	7,340,243	741,071	2,402,698	15,891,860
Depreciation (Notes 11 and 12)	—	936,587	308,641	83,512	955,900	2,284,640
Disposals	—	—	(17,634)	—	—	(17,634)
Balances at end of year	—	6,344,435	7,631,250	824,583	3,358,598	18,158,866
Net book values	₱16,336,217	₱13,708,845	₱736,080	₱1,019,384	₱1,682,497	₱33,483,023

December 31, 2017

	Land	Building	Office and Computer Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost						
Balances at beginning of year	₱16,336,217	₱18,734,059	₱7,586,608	₱741,071	₱5,041,095	₱48,439,050
Additions	—	—	400,410	—	—	400,410
Disposals	—	—	(215,446)	—	—	(215,446)
Balances at end of year	16,336,217	18,734,059	7,771,572	741,071	5,041,095	48,624,014
Accumulated depreciation						
Balances at beginning of year	—	4,471,146	7,157,046	741,071	1,446,798	13,816,061
Depreciation (Notes 11 and 12)	—	936,702	398,643	—	955,900	2,291,245
Disposals	—	—	(215,446)	—	—	(215,446)
Balances at end of year	—	5,407,848	7,340,243	741,071	2,402,698	15,891,860
Net book values	₱16,336,217	₱13,326,211	₱431,329	₱—	₱2,638,397	₱32,732,154

The aggregate cost of fully depreciated property and equipment that are still used in operations amounted to ₱5.50 million and ₱8.28 million as of December 31, 2018 and 2017, respectively.



9. Other Noncurrent Assets

Other noncurrent assets consist of input VAT that is expected to be offset against output VAT in more than one year. As of December 31, 2018 and 2017, deferred input VAT amounted to ₱17.93 million and ₱27.09 million, respectively.

10. Accounts Payable and Other Current Liabilities

	2018	2017
Accrued contractors' payables	₱38,012,562	₱38,117,214
Accounts payable - trade	9,567,663	4,119,110
Retention payable (Note 20)	861,630	6,579,480
Government payables	₱441,444	₱742,236
Accrued expenses	109,066	2,764,884
Customers' deposits	—	72,696,975
Unearned income	—	2,105,565
Others	688,645	90,765
	₱49,681,010	₱127,216,229

- a. Accrued contractors' payables represent accruals for billings of various contractors in relation to the Anuva and Althea projects. These accruals are reclassified to accounts payable once billings are actually received.
- b. Accounts payable includes billings of various suppliers and contractors for liabilities incurred in relation to the Project and office administrative functions. Accounts payable are noninterest-bearing with payment terms which are dependent on the suppliers' or contractors' credit terms, which is generally 30 to 60 days.
- c. Retention payable represents the amount retained by the Company as security for any defects and damages on the construction of Anala arising from or due to faulty workmanship and/or defective contractor-supplied materials before the final acceptance of the Anala and the payment of the last billing. Retention payable is expected to be settled within the next financial year.
- d. Government payables consist of mandatory contributions and payments to the Social Security System, Philippine Health Insurance Corporation, and the Home Development Mutual Fund, withholding tax payables and are remitted the month following the month of withholding.
- e. Customers' deposits include collections received from buyers which (a) have not met the revenue recognition criteria and/or (b) have met the revenue recognition criteria but the collections received are greater than the recognized instalment contracts receivable based on the POC. This is reclassified to contract liabilities in 2018 (see Note 18).
- f. Unearned income pertains to collections from buyers exceeding the recognized sale of real estate based on percentage-of-completion in 2017.



11. Sales and Marketing Expenses

	2018	2017
Commissions and incentives	₱10,927,096	₱8,365,312
Consultancy fees	8,141,387	7,268,606
Product presentation	2,347,192	4,485,533
Advertising	1,868,652	805,368
Utilities	656,716	793,392
Transportation and travel	218,322	237,899
Communications	67,206	334,330
Depreciation (Note 8)	57,140	5,035
Rentals (Note 20)	49,424	121,251
Others	178,429	38,934
	₱24,511,564	₱22,455,660

12. General and Administrative Expenses

	2018	2017
Property management expenses	₱15,056,283	₱—
Personnel costs	13,362,150	10,689,919
Depreciation (Note 8)	2,227,500	2,286,210
Professional fees	2,178,473	1,839,196
Taxes and licenses	2,106,248	4,517,978
Rentals (Note 20)	2,040,246	2,003,236
Transportation and travel	1,834,972	4,318,334
Security services	1,558,801	2,049,722
Communications	1,139,655	875,717
Dues and subscriptions	684,270	692,651
Utilities	552,281	443,263
Repairs and maintenance	549,468	495,669
Supplies	449,154	682,489
Entertainment, amusement and recreation	104,945	134,961
Insurance	60,437	53,957
Interest, penalties and charges	—	2,600,832
Others	744,592	3,118,400
	₱44,649,475	₱36,802,534

Others include recruitment fees, business expenses, bank charges and other miscellaneous expenses.

Personnel costs consist of:

	2018	2017
Salaries and wages	₱12,019,726	₱9,016,211
Other employee benefits	1,021,222	1,432,438
Retirement benefits costs (Note 13)	321,202	241,270
	₱13,362,150	₱10,689,919



13. Retirement Benefit Obligation

The Company has an unfunded, noncontributory defined benefit retirement plan which covers all of its regular employees. Republic Act No. 7641 (“Retirement Pay Law”), an act amending article 287 of Presidential Decree No. 442 (“Labor Code of the Philippines”), requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The latest actuarial valuation report is as at December 31, 2018.

Retirement benefits costs are as follows:

	2018	2017
Current service cost	₱262,630	₱208,199
Interest cost	58,572	33,071
	₱321,202	₱241,270

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

	2018	2017
Beginning	₱1,006,386	₱619,301
Current service cost	262,630	208,199
Interest cost	58,572	33,071
Actuarial loss (gain) due to:		
Change in assumptions	(624,822)	(68,361)
Change in demographic assumptions	137,345	(15,237)
Experience adjustments	(479,854)	229,413
Ending	₱360,257	₱1,006,386

Actuarial gain (loss) on the retirement benefit obligation recognized in other comprehensive income amounted to ₱967,331 and (₱145,815) in 2018 and 2017, respectively.

The principal actuarial assumptions used to determine retirement obligations for the Company’s retirement plan are as follows:

	2018	2017
Discount rate	7.31%	5.82%
Salary increase rate	5.00%	10.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the pension obligations, assuming all other assumptions were held constant:

December 31, 2018:

	Increase (decrease) in basis points (bps)	Effect on defined benefit obligation
Discount rate	100 bps	(₱47,946)
	(100 bps)	56,669
Future salary increase rate	100 bps	59,255
	(100 bps)	(50,689)



December 31, 2017:

	Increase (decrease) in basis points (bps)	Effect on defined benefit obligation
Discount rate	100 bps	(₱126,148)
	(100 bps)	148,352
Future salary increase rate	100 bps	143,098
	(100 bps)	(124,422)

The estimated weighted average duration of benefit payment is 18 years as of December 31, 2018.

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

	2018	2017
Less than one year	₱—	₱—
More than one year to five years	—	115,922
More than five years and 10 years	—	—
More than 10 to 15 years	4,832,100	6,745,425
More than 15 to 20 years	600,326	2,098,568
More than 20 years	3,540,797	3,535,311

14. Other Income - Net

	2018	2017
Forfeited buyer deposits	₱3,708,245	₱7,312,900
Interest income on:		
Installment contract receivables (Note 5)	6,464,294	7,916,080
Cash and cash equivalents (Note 4)	1,267,608	20,077
Write-off of input VAT	(3,150,911)	(7,473,163)
Gain on repossession	1,147,589	4,170,772
Penalty income and late payment charges	1,028,533	477,394
Others	5,603,125	873,001
	₱16,068,483	₱13,297,061

- Forfeited buyer deposits are recognized when the deposits from potential buyers are deemed nonrefundable due to prescription of the period for entering into a contracted sale. These pertain to deposits that did not reach the collection threshold.
- Gain on repossession represents the difference between the fair value of the repossessed inventories and the carrying value of the installment contract receivables and any amount refundable to the buyer at the date of repossession.
- Penalties are additional fees imposed on customers due to their failure to make payments on time.
- Others pertain to reversal of long outstanding payables as the Company assessed that these will no longer be collected by the suppliers, among others.



15. Income Taxes

- The Company's current provision for income tax represents RCIT in 2018 and MCIT in 2017.
- A reconciliation of provision for income tax computed at statutory income tax rate to provision for income tax at effective income tax rate is as follows:

	2018	2017
Provision for (benefit from) income tax at statutory tax rate	₱5,630,233	(₱4,332,277)
Adjustments resulting from tax effects of:		
Interest income subjected to final tax	(380,282)	(6,023)
Nondeductible expenses	300	4,666,434
Movements in deductible temporary differences, NOLCO and excess MCIT over RCIT for which no deferred income tax assets were recognized	–	3,116,675
Provision for income tax	₱5,250,251	₱3,444,809

- The components of the Company's net deferred income tax assets (liabilities) are as follows:

	2018	2017
Deferred income tax assets on:		
Retirement benefit obligation*	₱108,077	₱301,916
Excess MCIT over RCIT	–	3,863,616
NOLCO	–	1,205,972
	108,077	5,371,504
Deferred income tax liabilities on:		
Gain on repossession	(6,214,958)	(5,870,682)
Difference between tax and book basis of accounting for real estate transactions	(1,364,395)	(1,674,766)
	(7,579,353)	(7,545,448)
	(₱7,471,276)	(₱2,173,944)

*Net of deferred income tax liability, recognized directly in other comprehensive income, amounting to ₱295,982 and ₱5,783 as of December 31, 2018 and 2017, respectively.

- NOLCO and excess MCIT over RCIT that can be claimed as deduction against future taxable income and regular corporate income tax due, respectively, as follows:

Year Incurred	Balance as of December 31, 2017	Addition	Application	Expiration	Balance as of December 31, 2018	Tax effect	Available Until
Excess MCIT over RCIT							
2015	₱1,213,840	₱–	₱1,213,840	₱–	₱–	₱–	2018
2016	1,373,128	–	1,373,128	–	–	–	2019
2017	1,276,648	–	1,276,648	–	–	–	2020
	₱3,863,616	₱–	₱3,863,616	₱–	₱–	₱–	
NOLCO							
2015	₱4,019,906	₱–	₱–	₱4,019,906	₱–	₱–	2018



16. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

	Amount/volume		Outstanding balance		Terms	Conditions
	2018	2017	2018	2017		
Parent Company						
SRI						
Due to Parent Company (a)	(₱109,328,660)	(₱125,348,249)	₱1,001,200,241	₱1,110,528,901	Within one year; noninterest bearing	Unsecured; No impairment

- Due to Parent Company represent amounts received by the Company to finance the construction of Anala (see Note 1).
- The compensation of key management personnel follows:

	2018	2017
Salaries, wages and bonuses	₱5,732,482	₱3,573,860
Other employee benefits	108,252	89,220
Retirement benefits costs	264,544	203,630
	₱6,105,278	₱3,866,710

17. Capital Stock and Additional Paid-in Capital

The Company's authorized, issued and outstanding common shares are as follows:

	December 31, 2018		December 31, 2017	
	No. of Shares	Amount	No. of Shares	Amount
Authorized - ₱100 par value	1,600,000	₱160,000,000	1,600,000	₱160,000,000
Issued	312,298	31,229,800	312,298	31,229,800
Subscribed, net of subscription receivable of ₱30,000,000	400,000	10,000,000	400,000	10,000,000

On March 4, 2011, SRI transferred land with a fair value of ₱312.30 million to the Company in exchange for 312,298 additional shares in the Company. As a result of the exchange, additional paid-in capital increased by ₱281.07 million, representing the excess of fair value of the land acquired over the par value of capital stock issued as consideration.



18. Revenue from Contracts with Customers

a. Disaggregated Revenue Information

The Company derives its real estate revenue from sale of lots, house and lot, condominiums and parking space.

The Company's disaggregation of each sources of revenue from contracts with customers are presented below:

Segments	For the year ended December 31, 2018			
	Lot/House and Lot	Condominium	Parking Lot	Total
Type of goods				
Sale of lot and house and lot	₱111,859,740	₱—	₱—	₱111,859,740
Sale of condominium unit	—	23,909,029	—	23,909,029
Sale of parking lot	—	—	1,807,170	1,807,170
Total	₱111,859,740	₱23,909,029	₱1,807,170	₱137,575,939
Timing of revenue recognition				
Goods transferred over time	₱111,859,740	₱23,909,029	₱1,807,170	₱137,575,939

b. Contract balances

The Company's contract balances as at December 31, 2018 and January 1, 2018 are as follows:

	December 31	January 1
Contract assets	₱59,457,026	₱70,200,604
Contract liabilities	97,842,469	74,802,540

Contract assets

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

Breakdown as to current and noncurrent portion of the amount recorded under "Contract assets" account as of December 31, 2018 follows:

Contract assets - current	₱26,744,405
Contract assets - noncurrent	32,712,621
	₱59,457,026

Contract liabilities

As disclosed in Note 2, the Company adopted PFRS 15 and resulted to reclassification of customers' deposits to "Contract liabilities" amounting to ₱97.84 million.

As at December 31, 2018, contract liabilities amounted to 97.84 million. These are expected to be recognized as revenue in the following year. Contract liabilities as of January 1, 2018 amounting to 74.80 million were recognized as revenue in 2018.



c. Performance obligations (PO)

The following are the PO of the Company:

(a) *House and lot*

For sale of house and lot, house and lot are separately identifiable promises but are expected to be combined as one performance obligation since these are not distinct within the context of the contract. The obligation to deliver the house duly constructed in a specific lot is fully integrated in the lot in accordance with the approved plan. If sale occurs upon completion, the Company expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the house and lot. If sale occurs prior to completion, the Company expects the revenue recognition to occur over time when satisfying the criterion of which 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.

(b) *Lot*

The developer performs significant activities of land development in accordance with the approved subdivision plan. This includes, but is not limited to, provision of drainage, sewerage, water and electricity system which integrates the common areas and saleable lots. These development activities, however, are not distinct promises but rather necessary and required inputs relative to the developer's promise to deliver the residential lot.

19. Financial Instruments

Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents, receivables, refundable deposits, accounts payable and other current liabilities and due to Parent Company. The main purpose of these financial instruments is to fund the Company's operations.

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and manage the Company's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company has exposure to credit risk and liquidity risk from the use of its financial instruments. The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk arises when a customer or counterparty fails to discharge an obligation and cause the Company to incur a financial loss.

The Company trades only with recognized, creditworthy third parties. Customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. In the real estate industry, title to the property is transferred only upon full payment of the purchase price. There is also a provision in the sales contract which allows forfeiture of installments/deposits made by the customer in favor of the Company. These measures minimize the credit risk exposure or any margin loss from possible default in the payment of installments.



The maximum exposure to credit risk for financial assets, which is composed of cash and cash equivalents, receivables, and refundable deposits, is equivalent to the carrying amount of these financial assets in the statement of financial position. Given the Company's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from financial assets, the Company's exposure to credit risk arises from default of the counterparties, with a maximum exposure as of December 31, 2018 and 2017 equal to the carrying value of the instruments. Receivables from sale of real estate have minimal credit risk and are effectively collateralized by the respective units sold since the title to the real estate properties are not transferred to the buyers until full payment is made. Consequently, an impairment analysis is performed at each reporting date using a vintage analysis to measure ECL. The mechanics of the ECL calculations and the key elements are, as follows:

- a. *Probability of default (PD)* is an estimate of the likelihood of default over a given time horizon.
- b. *Exposure at default (EAD)* is an estimate of the exposure at a future default date taking into account expected changes in the exposure after the reporting date.
- c. *Loss given default (LGD)* is an estimate of the loss arising in the case where a default occurs at a given time.

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

For receivables and contract assets, an impairment analysis is performed at each reporting date using vintage analysis to measure ECLs. The Company used the vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given ICR pool. The calculation reflects the probability-weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- Gross domestic income
- Bank lending rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Based on the Company's credit risk experience, expected credit loss rate increases as the age of the receivables increase.

The Company evaluated the credit quality of the ICR pool through a ratio of default occurrences of each month for the past 5 years to the number of receivable issuances during each year. The analysis resulted to low PD rates as the Company experienced minimal default occurrences in the past. In addition, the Company expects to recover the defaulted accounts through subsequent disposal of repossessed inventories at an amount higher than the contractual cash flows due and defaulted.



The application of the ECL model does not have significant impact on the Company's allowance for credit losses as of December 31, 2018. No provision for credit losses in 2018 using the ECL model has been recorded.

The aging per class of financial assets and the expected credit loss as of December 31, 2018 follows:

	Financial Assets				Total
	12-Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Simplified Approach	
Amortized Cost					
Cash in banks and cash equivalents*	₱36,906,567	₱—	₱—	₱—	₱36,906,567
Receivables**	—	—	—	34,427,940	34,427,940
Contract assets	—	—	—	59,457,026	59,457,026
Refundable deposits	3,106,524	—	—	—	3,106,524
	₱40,013,091	₱—	₱—	₱93,884,966	₱133,898,057

*Excludes cash on hand.

**Excluding advances to suppliers and contractors.

Set out below is the information about credit risk exposure on the Company's financial assets using a vintage analysis as of December 31, 2018.

	Days Past Due					Total Receivables and Contract Assets and ECL
	Current	0-30 Days	31-60 Days	61-90 Days	Over 90 Days	
Estimated total gross carrying amount at default	₱74,718,417	₱6,192,916	₱492,060	₱274,608	₱12,206,965	₱93,884,966
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected credit loss	₱—	₱—	₱—	₱—	₱—	₱—

The table below shows the credit quality by class of financial asset based on the Company's rating system as of December 31, 2017:

	Neither Past Due Nor Impaired		Past Due But Not Impaired	Total
	High Grade	Standard Grade		
Loans and receivables:				
Cash and cash equivalents*	₱64,904,208	₱—	₱—	₱64,904,208
Receivables	—	100,471,841	14,710,013	115,181,854
Refundable deposits	2,685,852	—	—	2,685,852
	₱67,590,060	₱100,471,841	₱14,710,013	₱182,771,914

*Excludes cash on hand.

The Company considers its cash in bank as high grade since these are placed in financial institutions of high credit standing. Accordingly, ECL relating to cash in banks is considered as immaterial. Other receivables consist of advances to officers and employees and others. The Company evaluated its other receivables as high grade since these are collected through salary deductions or deducted to employees final pay. The ECL relating to this financial asset is considered as immaterial.



A high grade financial asset pertains to a counterparty that is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies. Standard grade financial assets pertain to other financial assets not belonging to high quality financial assets. Past due but not impaired financial assets are items with history of frequent default. Nevertheless, the amount due are still collectible.

The aging analysis of financial assets that are past due but not impaired as of December 31, 2017 follows:

Less than 30 days	₱1,180,617
31-60 days	—
61-90 days	178,324
More than 90 days	13,351,072
	₱14,710,013

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to settle or meet its obligations on time or at a reasonable price. Management is responsible for liquidity, funding as well as settlement management. In addition, liquidity and funding risks, related processes and policies are overseen by management. The Company manages its liquidity risk based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility.

The following tables summarize the maturity profile of the Company's financial assets used for liquidity purposes based on contractual undiscounted cash flows, and the Company's financial liabilities based on contractual undiscounted payments.

December 31, 2018

	On Demand	Less than 3 Months	3 to 12 Months	More than 1 year	Total
Financial Assets					
Financial assets at amortized cost:					
Cash and cash equivalents	₱37,053,330	₱—	₱—	₱—	₱37,053,330
Receivables*	19,166,549	261,391	—	15,000,000	34,427,940
Contract assets	—	26,744,405	—	32,712,621	59,457,026
Refundable deposits	3,106,524	—	—	—	3,106,524
	59,326,403	27,005,796	—	47,712,621	134,044,820
Financial Liabilities					
Other financial liabilities:					
Accounts payable and other liabilities**	10,870,260	37,507,676	861,630	—	49,239,566
Due to parent company	1,001,200,241	—	—	—	1,001,200,241
	1,012,070,501	37,507,676	861,630	—	1,050,439,807
Liquidity position (gap)	(₱952,744,098)	(₱10,501,880)	(₱861,630)	₱47,712,621	(₱916,394,987)

*Excluding advances to suppliers and contractors.

**Excluding government payables and contract liabilities.

December 31, 2017

	On Demand	Less than 3 Months	3 to 12 Months	More than 1 year	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	₱65,009,121	₱—	₱—	₱—	₱65,009,121
Receivables*	14,710,013	25,278,923	7,198,058	61,841,846	109,028,840
Refundable deposits	2,685,852	—	—	—	2,685,852
	82,404,986	25,278,923	7,198,058	61,841,846	176,723,813

(Forward)



	On Demand	Less than 3 Months	3 to 12 Months	More than 1 year	Total
Financial Liabilities					
Other financial liabilities:					
Accounts payable and other liabilities**	₱6,883,994	₱44,787,459	₱—	₱—	₱51,671,453
Due to parent company	1,110,528,901	—	—	—	1,110,528,901
	1,117,412,895	44,787,459	—	—	1,162,200,354
Liquidity position (gap)	(₱1,035,007,909)	(₱19,508,536)	₱7,198,058	₱61,841,846	(₱985,476,541)

*Excluding advances to suppliers and contractors.

**Excluding government payables, customers' deposits and unearned income.

Fair Value of Financial Instruments

The Company has no financial instruments measured at fair value on a recurring basis. As of December 31, 2018 and 2017, the carrying values of cash and cash equivalents, receivables, refundable deposits, accounts payable and other current liabilities and due to Parent Company approximate their fair values due to the short-term nature of these transactions.

Capital Management

The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To manage or adjust the capital structure, the Company may obtain additional advances from the Parent Company and stockholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2018 and 2017.

The Company was able to meet its capital management objectives as of December 31, 2018 and 2017.

The following table pertains to the account balances which the Company considers as its core economic capital.

	2018	2017
Due to Parent Company	₱1,001,200,241	₱1,110,528,901
Capital stock	41,229,800	41,229,800
Additional paid-in capital	281,068,200	281,068,200
Deficit	(162,626,401)	(176,143,593)
	₱1,160,871,840	₱1,256,683,308

20. Contracts and Commitments

Construction Agreements and Purchase Commitments

The Company entered into various construction-related contracts for the Anala and Althea projects. These contracts pertain to construction management, general construction works, exterior wall construction works, land development works, mechanical works and electrical and auxiliary works. The contracts for the Anala Project commenced on various dates in 2011 and 2012, with terms ranging from 3 weeks to 2 years. These contracts expired on various dates in 2012 until May 2015, the anticipated turnover date of Anala. The contracts relating to the Althea Project ranges from 120 to 180 days.

These agreements require down payment of 15% to 20% of the contract price while the balance will be settled through progress billings. The agreements also include a provision whereby the Company shall



deduct 10% retention from every progress payment until full completion of the project work. Retention payable related to these contracts amounted to ₱0.86 million and ₱6.58 million as of December 31, 2018 and 2017, respectively (see Note 10).

Lease Agreements

On June 16, 2015, the Company entered into a new lease contract with E. Zobel, Inc. for the transfer of office space from 4th Floor to 2nd Floor of Enzo Building, located at No. 399 Senator Gil Puyat Avenue, Makati City for a period of six months. The lease agreement is renewable on a yearly basis. The Company then renewed the lease for another year.

The Company paid security deposit amounting to ₱0.31 million to answer for any and all damages to the leased premises and as security for the return of the leased premises in proper condition. Minimum lease payments within one year amounted to ₱1.72 million.

The Company also entered into a lease contract with a third party contractor to provide service vehicle to Company officers. The contract is renewable every six months.

The related rent expense recognized by the Company amounted to ₱2.09 million and ₱2.12 million in 2018 and 2017, respectively (see Notes 11 and 12).

21. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by Revenue Regulations No. 15-2010 hereunder are the information on taxes and license fees paid or accrued in 2018:

VAT

Net sales/receipts and output VAT declared in the Company's VAT returns for 2018:

	Net Sales/ Receipts	Output VAT
VATable sales	₱65,987,286	₱7,918,474
Exempt sales	114,715,194	—
	₱180,702,480	₱7,918,474

Exempt sales consist of real estate sales where contract price of sold units did not meet the threshold for VAT purposes as provided in Section 109 of National Internal Revenue Code of 1997, as amended. Accordingly, there was no output VAT recognized for such transactions.

Details of the Company's input VAT as at December 31, 2018 is as follows:

Input VAT, beginning of the year	₱59,107,115
Current year domestic purchases/payments for:	
Goods other than capital goods	252,452
Services	4,131,074
Total available input VAT	63,490,641
Application against output VAT	(7,918,474)
Allowed deductions from input VAT	(3,150,911)
Input VAT, end of the year	₱52,421,256



Withholding Taxes

The Company has withholding taxes for the year ended December 31, 2018 as follows:

Expanded withholding taxes	₱1,900,115
Tax on compensation and benefits	993,000
	<u>₱2,893,115</u>

Tax on compensation and benefits and expanded withholding taxes are recorded under the “Cost of real estate sales” and “General and administrative expenses” accounts in the statement of comprehensive income.

Other Taxes and Licenses

In 2018, the Company has paid taxes and licenses which is lodged under “General and administrative expenses” in the statement of comprehensive income as follows:

Real property taxes	₱1,298,941
Business permits	807,307
	<u>₱2,106,248</u>

Tax Assessment and Case

In 2018, the Company was not involved in any tax assessment and cases.

