

# COVER SHEET

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(Company's Full Name)

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

**Atty. Karen Cas-Caballa**

Contact Person

**632-3282**

Company Telephone

Number

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Month

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Day

**SEC Form 17-A (2019)**

FORM TYPE

**2<sup>nd</sup> Wednesday of**

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Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.  
Number/Section

Amended Articles

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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**STAMPS**

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2019**
2. Commission identification number **37338**
3. BIR Tax Identification No. **000-133-166**
4. Exact name of issuer as specified in its charter **SAN MIGUEL PROPERTIES, INC.**
5. **Philippines**  
Province, Country or other jurisdiction of  
incorporation or organization
6. \_\_\_\_\_ (SEC Use Only)  
Industry Classification Code
7. **40 San Miguel Avenue**  
**Mandaluyong City**  
Address of principal office
8. **1550**  
Postal Code
8. **(632) 632-3000**  
Issuer's telephone number, including area code
9. **N/A**  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the SRC.

| <u>Title of Each Class</u>   | <u>Authorized</u>     | <u>Issued</u>      |
|------------------------------|-----------------------|--------------------|
| Common Shares, P10 par value | <b>15,000,000,000</b> | <b>719,680,169</b> |
11. Are any or all of these securities listed on a Stock Exchange.  
  
Yes [ ] No [✓]  
If yes, state the name of such stock exchange and the classes of securities listed therein:
12. Check whether the issuer:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports:  
  
Yes [✓] No [ ]
  - (b) has been subject to such filing requirements for the past 90 days.  
  
Yes [✓] No [ ]
13. State the aggregate market value of the voting stock held by non-affiliates of the registrant.  
  
As of December 31, 2019, the aggregate market value of the voting stock held by non-affiliates is P10.4 Million, computed on the basis of the Company's Tender Offer price as of April 5, 2013 at P134.12 per share. The Company has been delisted from the Philippine Stock Exchange on May 2013.
14. DOCUMENTS INCORPORATED BY REFERENCE. None

## **PART I – BUSINESS AND GENERAL INFORMATION**

### **Item 1. Business**

San Miguel Properties Philippines, Inc. [SMPPI] was incorporated on December 18, 1990 as the corporate real estate arm of SMC. Monterey Farms Corporation (MFC), on the other hand, was incorporated on January 17, 1969. On 30 January 1998, the Securities and Exchange Commission approved the merger between SMPPI and MFC, with the latter as the surviving entity.

In view of the merger, SMPPI ceased to exist while MFC changed its corporate name to Monterey-San Miguel Properties, Inc. (M-SMPI) and its business nature to real estate development. The surviving company is net of its original meat operations which were spun-off to Monterey Foods Corporation.

The Board of Directors, in its meeting on April 6, 1998, has approved the change of the corporate name from Monterey-San Miguel Properties, Inc. (M-SMPI) to San Miguel Properties, Inc. ("SMPI" or the "Group") primarily engaged in the development, sale or lease of properties. The stockholders ratified the same resolution in its meeting on June 9, 1998. On July 14, 1998, the Securities and Exchange Commission (SEC) approved the said change of name. On December 9, 2002, the Group merged with another subsidiary, HOC Realty, Inc. ("HRI"), with the Group as the surviving entity.

Among the Group's significant subsidiaries and associates are, (a) SMPI Makati Flagship Realty Corp., doing business under the trade name and style: Makati Diamond Residences (pursuant to the Amended Articles of Incorporation, dated November 3, 2015, reflecting therein the change of name of the company from SMPI-GSIS Joint Venture Corporation) that owns and operates a full service hotel apartment, located in Salcedo Village, Makati City; (b) Bright Ventures Realty, Inc. (BVRI) with a completed high-end residential townhouse with a condominium concept of ownership in its property located in Addition Hills, San Juan City, featuring common amenities such as a clubhouse/party house, swimming pool, basement parking for all residents (thus, providing an unimpeded view of the community) and gym / kids playroom; (c) Carnell Realty, Inc. with a completed residential townhouse project located in Lee St. Mandaluyong City called One Dover View Townhouse; (d) E-Fare Investments Holdings, Inc. which is the owner and developer of an industrial estate and economic zone located within the Authority of the Freeport Area in Mariveles, Bataan; (e) La Belle Plume Realty, Inc. which is the owner, developer and Tourism Enterprise Zone (TEZ) operator of a township project in Nabas, Aklan as designated by the Tourism Infrastructure and Enterprise Zone Authority (TIEZA); (f) Moonspring Development, Inc. which shall own and operate, through an international branded hotel, a 373-room hotel in Nabas, Aklan. This shall be one of the many locators that will operate within the tourism enterprise zone as a Registered Tourism Enterprise (RTE), as mentioned in the preceding item; (g) Newsclapes Haven Development, Inc. shall undertake the construction of a themed destination water park and adventure park that would serve as the main activity generator within the tourism enterprise zone as well as in the Visayas area and a RTE with the TIEZA; (h) Malay Nabas Realty Development, Inc. which shall be the owner and developer of a 250-room hotel to be operated likewise by an international hotel brand. This shall also be treated as among the locators and a RTE with TIEZA, situated in the tourism enterprise zone; i) Caticlanscapes Realty Development, Inc. which shall be the owner of a transit hotel housing the airport and crew of the Boracay International Airport as well as the employees of the various hotel developments within the ecozone/township. It will offer budget hotel rooms to backpackers and budget seeker market of Boracay and the tourism enterprise zone; (j) Bank of Commerce ("BOC"), which has been serving the Philippine banking community for over 40 years, and in which the Group owns 39.93% of its total and outstanding shares of stock as of December 31, 2019; and (k) Excel Unified Land Resources Corporation ("Exceland"), incorporated in 1995 which developed a high-end residential subdivision in Silang, Cavite. This is as a joint venture project with the Group with Pet Plans, Inc. which is now currently under receivership with the Bank of the Philippine Islands - Asset and Trust Management Group (BPI-ATMG).

There has been no bankruptcy, receivership or similar proceeding or any material reclassification, consolidation of a significant amount of assets not in the ordinary course of business in the last

three (3) years of the Group's and its significant subsidiaries' operations, other than those described in the ***Management's Discussion and Analysis*** attached hereto as **Annex "C"**.

A. **Products**

*Residential Developments*

Its residential projects located in General Trias, Cavite namely, Bel Aldea, Maravilla and Asian Leaf subdivisions are now on their final leg of selling the few remaining units which composing of townhouse and single attached unit concepts.

Another project of San Miguel Properties in the South, under one of its subsidiaries named Exceland, an upscale development located in Silang Cavite, just a few minutes away from Sta. Rosa's flourishing mixed-used development

Aside from the Group's existing residential projects located in General Trias, Cavite and Exceland's Sta. Rosa, Laguna Project, the sale of its townhouse developments in key cities of Metro Manila is also on-going. The Group and its significant subsidiaries are presently focusing on marketing its these projects namely, Dover Hill of Bright Ventures Realty, Inc. located in San Juan City, and One Dover View of Carnell Realty, Inc. and Two Dover View both located in Mandaluyong City. These luxury townhouse developments will cater to the upscale market of Metro Manila.

*Lease Operations*

The Group leases out most of its commercial office spaces and warehouses to San Miguel Corporation, its subsidiaries and affiliates, as well as to third parties. The Group has leasable commercial office spaces in Mandaluyong City and Pasig City, industrial space in Isabela, and warehouse in Paranaque City.

For the ***List of Group's Products***, please refer to the hereto attached **Annex "A"**.

For the ***Group's contribution from sales***, please refer to **Annex "C"** and Note 4 of **Annex "D"**.

B. **Distribution Methods**

The buyers purchase properties through the in-house Sales Group or through the Group's network of real estate brokers/sales agents/consultants. To date, SMPI's sales' base has expanded to around 123 active agents.

In 2019, the Group's reservation sales was 3% higher than the target as a result of effective marketing initiatives by way of site-based activities which were coupled with buyers and sellers' incentives. This is attributed to several marketing activities like display of visible collaterals, manning booths and exhibits in strategic locations and digital marketing, as well as participating in to tap new clients and ensure market presence.

In addition, addressing the end-buyer's market, the introduction of lower move-in fees and flexible payment terms significantly contributed to the hike in reservation sales. The accreditation of more banks to provide end-user financing scheme resulted to more payment options.

C. **Competition**

SMPI's major competitors in the CALABARZON area are the Ayala West Grove Heights by Ayala Land Premier; Nuvali by Ayala Land; South Forbes by Cathay Land; Solenn Residences by Greenfield Properties; Eton City by Eton Properties; Ayala Land's Amaia

Scapes, Solviento by GeoEstate, Natania Homes and Sabella by My Citi Homes, Meridian Place by Filinvest, and Cedarwood Residences by Asia Landbest. The quality of development and pricing of the Group's projects remain to be very competitive.

Particularly, the General Trias, Cavite projects' major competitors are Pro-Friends, Vista Land, Filinvest, Ayala Land, Century Properties, Robinsons Land, Sun Trust, Northpine, Cathayland and thirty five (35) other small real estate developers.

The Group's competitors in Metro Manila are KMC Mag Group's Baron Residences, Federal Land's One Wilson Square, Ortigas & Company's Veridian Greenhills, Robinson Land's Chimes and Shang Properties' Shangri-La Residences.

All SMPI-managed buildings are at 100% occupancy level. The Group's lease operation remains stable due to the primacy of the Group's commercial office spaces.

For the properties of SMPI generating lease income located in the Ortigas area, its competitors include the One Corporate Center, Philippine Stock Exchange Tower, , Wynsum Corporate Plaza, IBP Tower, Cyberspace Gamma, Rockwell Business Center, and Estancia Offices.

#### D. **Sources and availability of Raw Materials and Supplies**

The Group and its significant subsidiaries engage several accredited contractors to construct the housing units or do the land development of its different real estate projects. The following are the major contractors engaged by the Group during the year:

|                                                                       |                                                                                                     |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Allied Metals Inc.                                                    | 2000 Gov Halili Highway Muzon City Of San Jose Del Monte, Philippines                               |
| JJM Strong Roofing Construction And General Services Inc.             | B1 L10 San Sebastian St. San Dionisio Vill. Brgy San Dionisio, Paranaque City, 1708                 |
| International Elevator & Equipment Inc.                               | Km. 23 West Service Road, South Super Highway, Cupang, Muntinlupa City, 1770                        |
| Datem Inc.                                                            | 99 Mindanao Avenue; Brgy. Bahay Toro Quezon City, 1106 Philippines                                  |
| Podstudio Construction Inc.                                           | No. 62 K-1st St.; Cor. K-7th St.; Brgy. East Kamias, Quezon City, Philippines                       |
| Jardine Schindler Elevator Corp.                                      | 8th Floor Pacific Star Bldg Cor Sen Gil Puyat Ave. and Makati Ave. Bel-Air Makati City, Philippines |
| RWH Jaroglass Incorporated                                            | No. 59 Sen. Gil Puyat Avenue Makati City, Philippines                                               |
| RMDA Architects Co                                                    | 2865 Finlandia St. San Isidro Makati City, 1306 Philippines                                         |
| Vertical Space Interiors Inc                                          | 268 Factory B Niog 3 Bacoor Philippines                                                             |
| Cavite Ideal International Construction & Development Corp. (Cavdeal) | Governor's Drive Brgy Gregorio TMC Philippines                                                      |
| TCGI Engineers                                                        | 9f Feliza Building 108 V.A. Rufino Street Legaspi Village Makati City, Philippines                  |
| Fuji-Haya Electric Corp. Of The Phils.                                | Silangan Industrial Park Canlubang Calamba, Laguna 4027 Philippines                                 |
| Ackbrent Inc.                                                         | 14 B Balboa St Vista Verde Exec Vill San Isidro Cainta Rizal Philippines                            |
| Techbrokers Inc                                                       | 112 D Tuazon St. Brgy. Lourdes 1 Quezon City, Philippines                                           |
| Beta Electromechanical Corp                                           | #18 Bagong Calzada St. Brgy. Ususan Taguig City, Philippines                                        |
| We Enterprises & Contractors Inc.                                     | 19 Bible St. Karuhatan, Valenzuela City, 1441 Philippines                                           |
| Dunwoody and Madison Inc.                                             | Unit 815 Medical Plaza Ortigas 25 San                                                               |

|                                                    |                                                                                             |
|----------------------------------------------------|---------------------------------------------------------------------------------------------|
|                                                    | Miguel Ave. Ortigas Center, San Antonio, Pasig City, 1605                                   |
| White Water Architecture & Construction, Ltd.      | 63 Bogwang-Ro; Yongsan-Gu Seoul, South Korea                                                |
| Schema Konsult Inc.                                | 15f JMT Corporate Condo Adb Avenue Ortigas Center Brgy San Antonio, Pasig City, Philippines |
| MCP Construction General Contractor                | 1 Tumana Sta. Maria; Bulacan, 3022 Philippines                                              |
| Guangdong Golden Port Supply Chain Management      | Room 705 No. 1 Building No. 2 Jihua 5 Foshan 190 528000 China                               |
| Philgen Engineering Services                       | #39-B Dama De Noche St.; Freedom Park Batasan Hills Quezon City, 1126 Philippines           |
| N.S. Mangio Construction & Development Corporation | Unit 1; Corporate House; 239 Santolan Road; Bagong Lipunan; Quezon City, 1111 Philippines   |
| Veco Const. and Dev. Corp.                         | 520 San Pablo St Batis San Juan City, Philippines                                           |
| A. B. Ison Pilot Const. and Trading Corp.          | 7029 Wison St. Pio Del Pilar Makati City, 1200 Philippines                                  |
| Prompt Managers & Construction Services Inc.       | Unit 219 2/F The Manila Residences Tower II 2310 Taft Avenue Malate Manila                  |
| 480 Builders                                       | 485 Kalayaan Road, Brgy. Magdalo Poto, Kawit, 4104                                          |
| Arcadis Philippines Inc.                           | 25/F Circuit Corporate Ctr 1 Circuit Makati A.P. Reyes Ave. Carmona Makati City, 1207       |
| Metrocon Construction and Development Corporation  | 35 Jpa Bldg Felipe Pike St., Brgy Bagong Ilog, Pasig City,                                  |
| Metro Structural & Industrial Steelworks Corp.     | 747 Aurora Blvd Quezon City, 1113                                                           |
| Metrius Envirocare Solutions                       | 169 Sumulong Highway Mayamot Antipolo City, 1870                                            |
| Astrobay Construction                              | #06 Brgy San Isidro Bay Philippines                                                         |
| Greenstrat Inc.                                    | 3939 Magtanggol St. Cor. Dangal St. Bacood Zone 061 Brgy 617 Sta Mesa Manila                |
| J.C. Montemayor Design Construction and Trading    | 04 Prov Road San Juan Lubao Philippines                                                     |
| JME Supreme International                          | Unit 1802 West Trade Center 132 West Ave. Quezon City                                       |
| DPY Mercantile Inc                                 | No.778-B Mahogany St. Octagon Village Brgy.Dela Paz, Pasig City                             |
| Produkto ni Iking Co.                              | 17 Mabini St. Poblacion Nabas                                                               |
| Aklan Appliance Center                             | Cor. Mabini & D. Maagma Sts. Kalibo                                                         |
| Archen Technologies Inc                            | 38 Gen Delgado St. Brgy. San Antonio San Antonio Village, Pasig City                        |
| Pacific Security Systems Trading Corporaton        | G/F Mary Bachrach Bldg.; 25th Cor. Railroad Streets; Port Area, Manila                      |
| A. P. Angeles Jr. Surveying & Construction         | 51 Mahogany St. Dagatan Lipa City                                                           |

E. **Customers**

The Group is not dependent on a single or few customers, the loss of any of which would have no material adverse effect on the Group and its subsidiaries taken as a whole.

F. **Transactions with and/or dependence on Related Parties**

For transactions with and/or dependence on related parties, please refer to Note 23 of Annex “D”.

G. **Registered Trademarks/Patents, etc.**

All marks and other related intellectual property rights used by the Company are either registered or pending registration in the name of SMPI in the Philippines.

H. **Government Approval**

Prior to the start of a real estate development, the *Sangguniang Bayan* approves the site development plan and issues the locational clearance. The local representative of the Department of Environment and Natural Resources then issues the Environmental Compliance Certificate or if it is less than 2 hectares, issues the Certificate of Non-Coverage (COC). The Land Management Bureau approves the survey plan of a residential subdivision.

To be able to sell the subdivided lots and/or house and lot units, the Group is required to obtain a License to Sell from the Housing Land Use Regulatory Board (HLURB). The HLURB also issues a certificate of registration for the project name.

For industrial or economic zones, there shall be an approval from the economic zone authorities governing the place where the zones being applied for are located. These agencies include the Philippine Economic Zone Authority (PEZA), Tourism Infrastructure and Enterprise Zone Authority (TIEZA) or Authority of the Freeport Area of Bataan (AFAB) with the accreditation of the Department of Tourism (if a special tourism zone in the case of PEZA) or endorsement letters (in the case of TIEZA) coming from the National Heritage Institute (NHI) in the case of Cultural and Heritage Tourism Zone, from the Department of Health (DOH) in the case of Health and Wellness Tourism Zone, or from the Philippine Retirement Authority (PRA) in the case of retirement villages/communities.

If the classification of the proposed project site is classified as agricultural, the land should first be reclassified by the Local Government Unit in order for the classification to be consistent with the proposed development. In addition, a Conversion or an Exemption Order should be secured from the Department of Agrarian Reform.

I. **Government Regulations**

The following are the recent government regulations and issuances related to the Group's line of industry:

1. SEC issuances:

- a. SEC Memorandum Circular No. 3, Series of 2019 re Philippine Interpretations Committee Question and Answer (PIC Q&A) Nos. 2018-12H (Accounting for Common Usage Service Area) and 2018-14 (Accounting for Cancellation of Real Estate Sale)

The Commission decided to provide relief to the real estate industry by deferring the PIC Q&A Nos. 2018-12(H) and 2018-14 for a period of three (3) years. Effective January 1, 2021, real estate companies will adopt the above pronouncement.

- b. SEC Memorandum Circular No. 4, Series of 2019 re Sustainability Reporting Guidelines for Publicly-Listed Companies

The Commission issued the Sustainability Reporting Guidelines, which helps Public-Listed Companies to assess and manage non-financial performance such as Economic, Environmental, and Social aspects of the Companies. It will also help measure and monitor contributions in achieving universal targets of sustainability. Such report shall be attached to the Company's Annual Report (SEC Form 17-A) or just include a statement providing a link for the said report.

- c. SEC Memorandum Circular No. 7, Series of 2019 re Guidelines on the Establishment of a One Person Corporation (OPC)

In compliance with the Republic Act No. 11232 or the REVISED Corporation Code of the Philippines (RCC), the Commission issued guidelines, rules and regulations in the establishment of a One Person Corporation (OPC).

- d. SEC Memorandum Circular No. 10, Series of 2019 re Rules on Material Related Party Transactions for Publicly-Listed Companies.

Any related party transaction, either individually or in aggregate over a twelve (12) month period with the same related party amounting to ten percent (10%) or higher of a Company's total assets based on its latest audited financial statement is considered as Material Related Party Transaction (RPT) and the Company shall be required to submit its Material RPT policy signed by the Company's Chairman of the Board and Compliance Officer.

- e. SEC Memorandum Circular No. 12, Series of 2019 re Adoption of Revised Conceptual Framework

The Commission approved the adoption of Revised Conceptual Framework which includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance in particular the definition of a liability, and clarifications in important areas such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

- f. SEC Memorandum Circular No. 13, Series of 2019 re Amended Guidelines and Procedure on the Use of Corporate and Partnership Names.

The Commission issued guidelines and procedures to be in the registration of Corporate, One Person Corporate, and Partnership names, which shall be adopted by the Companies.

- g. SEC Memorandum Circular No. 15, Series of 2019 re Amendment of the SEC Memorandum Circular No. 17, Series of 2018 on the Revision of the General Information Sheet (GIS) to include Beneficial Ownership Information (2019 Revision of the GIS)

Pursuant to its mandate to assist in the implementation of the Anti-Money Laundering Act (AMLA) and the Terrorist Financing Prevention and Suppression Act (TFPSA), the Commission approved to amend SEC Memorandum Circular No. 17, Series of 2018 to include Beneficial Ownership Information on the General Information Sheet (GIS).

- h. SEC Memorandum Circular No. 16, Series of 2019 re Guidelines on the Number and Qualifications of Incorporators Under the Revised Corporation Code (RCC)

Under the RCC, two (2) or more persons, but not more than fifteen (15), may organize a Corporation instead of the five (5) but not more than fifteen (15), shall be adopted in registration of Domestic Corporations and other guidelines on the composition of the incorporators issued the Commission.



- i. SEC Memorandum Circular No. 23, Series of 2019 re Guidelines on the Revival of Expired Corporations

Pursuant to section 11 of the RCC, the term of existence of a corporation shall be perpetual unless its articles of incorporation provides otherwise. The Commission issued guidelines on the revival of an expired corporation.

- j. SEC Memorandum Circular No. 24, Series of 2019 re Code of Corporate Governance for Public Companies and Registered Issuers

The Commission adopted the Code of Corporate Governance for Public Companies and Registered Issuers (CG Code for PCs and RIs), which includes the following:

- The CG Code for PCs and RIs supersedes the following SEC Memorandum Circulars:
  - SEC Memorandum Circular No. 6, Series of 2009 (Revised Code of Corporate Governance);
  - SEC Memorandum Circular No. 9, Series of 2014 (Amendment to the Revised Code of Corporate Governance; and
  - SEC Memorandum Circular No. 4, Series of 2017 (Term Limits of Independent Directors).
- All other relevant Memorandum Circulars on corporate governance shall remain in force and effect until further notice.
- All public companies and registered issuers shall submit a new Manual on Corporate Governance within six (6) months from the effectivity of this Memorandum Circular.
- Notwithstanding the issuance of the CG Code for PCs and RIs, public companies and registered issuers shall submit a Compliance Officer Certification on the extent of the company's compliance with Revised Code of Corporate Governance and Corporate Secretary Certification on record of attendance in board meetings for the covered year 2019 on or before 30 January 2020.

2. Corporate Income Tax and Incentives Rationalization Act or House Bill No. 4157, otherwise known as the "CITIRA Bill"

The act seeks to lower the Corporate Income Tax (CIT) rate gradually from 30% to 20%, reorient fiscal incentives toward strategic growth industries, and make incentives available to investors who make net positive contributions to society. Tourism Infrastructure and Enterprise Zone Authority (TIEZA) will no longer be the agency to grant incentives to applicants but the Fiscal Incentives Review Board (FIRB) of the Department of Finance (DOF). The House of Representatives approved on third and final reading the CITIRA Bill last 10 September 2019. Currently, it is pending for review and deliberation of the Senate Committee on Ways and Means.

3. Republic Act No. 11262, An Act Amending Sections 85 and 103 of Republic Act No. 9593, otherwise known as "The Tourism Act of 2009"

The new law allows Tourism Infrastructure and Enterprise Zone Authority (TIEZA) to extend its granting of incentives to tourism enterprise zone (TEZ) for another 10 years or until December 31, 2029. Some of the incentives include a six year income tax holiday, a five percent (5%) preferential tax on gross income, exemptions on all taxes and customs duties on the importation of capital equipment, and exemption of transportation equipment and spare parts from tariffs and duties for TIEZA-registered activities. The law also added the Chairperson of the Committees on Ways and Means of both Houses of Congress to the Joint Congressional Oversight Committee under Section 103 of the Tourism Act of 2009. It was approved on 10 April 2019.

4. Department of Energy (DOE) Circular No. 2020-01-0001 re Prescribing the Rules Governing the Review and Evaluation of Direct Connection Applications of Industrial, Commercial, and other Electricity End-Users

Issuances on direct connection on the creation of the review committee and on 2020 where there is no longer an option for the applicant to challenge local electric company/cooperative. Direct connection can happen only through waiver or “deemed waiver.”

5. Housing and Land Use Regulatory Board (HLURB) Memorandum Circular No. 8, Series of 2019

Subdivision/condominium owners and developers are held to administrative sanctions if they violate Presidential Decree No. 957 and BP 220 and their Implementing Rules and Regulations. However, these administrative cases have not been an effective prevention to violate said laws, rules and regulations. HLURB is now authorized to file the necessary and appropriate criminal complaints against subdivision/condominium owners and developers in violation of the aforementioned law.

6. Philippine Competition Commission (PCC) Memorandum Circular No. 19-001 re Process for Exemption from Compulsory Notification in Solicited Public-Private Partnership (PPP) Projects.

The circular intends to make and establish a framework to exempt joint ventures of private entities formed for a PPP project, consistent with the mandate of the PCC and the objectives of the Build-Operate-and Transfer (BOT) Law.

7. Republic Act No. 11165, An Act Institutionalizing Telecommuting as an Alternative Work Arrangement for Employees in the Private Sector, otherwise known as the “Telecommuting Act”

An employer in a private sector may offer telecommuting program or a work arrangement that allows employees to work from an alternative workplace with the use of telecommunication and/or computer technologies, provided that it shall abide by the minimum labor standards, which shall include, compensable work hours, a minimum number of work hours, overtime, rest days, and entitlement to leaves. The law was approved on 20 December 2018 and was only released on 10 January 2019.

J. **Research and Development Activities**

The Group has engaged external service providers to: (1) conduct market research activities for the Company in preparation for the launching of its new residential and commercial projects (2) branding strategies to help distinguish its varied tourism/commercial projects from the rest particularly in the visayan region.

K. **Compliance with Environmental Laws**

The Group and its significant subsidiaries secured permits, licenses and certificates required for the projects at the start of the development. These are not renewed every year, except if new projects are developed and/or offered for sale.

L. **Human Resources and Labor Matters**

As of December 31, 2019, the Group and its significant subsidiaries have one hundred eighteen (118) regular employees, broken down into the following departments: (i) Office of the General Manager – 13; (ii) Finance and Treasury– 16; (iii) Legal and Asset Acquisition and Disposition Department – 13; (iv) Sales and Marketing – 9; (vi) Leasing – 1; (vii) Accounts Management – 12; (viii) Special Projects – 8; (ix) HR & Admin. – 5; (x)

Technical Services & Property Management – 25; (xi) Security & Asset Management – 9; (xii) ROW Acquisitions - 7. The Group expects significant changes in its existing workforce level within the ensuing twelve (12) months.

There are forty three (43) project hired employees in the Group.

None of the employees are subject to any Collective Bargaining Agreement. There is no known threat of strike, and there have been none in the last three (3) years.

Please refer to Note 21 of **Annex “D”** for the employees’ benefits.

M. **Major Risks**

Inherent in the Group's business as real estate developer are these risks: (a) acquisition of properties with undeclared encumbrances; (b) risk of non-performance of building contractors to required specifications and other claims; (c) risk of non-performance or failure to deliver commitments from joint venture partners; and (d) risk of non-payment of buyers of properties for sale.

To manage such risks, the Group and its significant subsidiaries perform due diligence in the acquisition of properties for encumbrances, tax deficiencies or adverse claims, if any, prior to the signing of the sale contracts and/or full payments thereof.

The Group and its subsidiaries also require all the contractors to submit the standard bonds and insurance (including policy renewals), duly authenticated by the internal Risk and Insurance Management Group before any release of payments are made. Further, provisions on liquidated damages have also been established for construction contracts to compensate costs in any contractor's delay or non-performance.

The Group also ensures that any processing for transfer of titles to real estate buyers would only commence upon full payment of contract price, for in-house financing, or upon receipt of Letter of Guarantee or Notice of Approval from banks or other financial institutions.

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated with its parent Group, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short- to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate optimum returns.

For the Group's other major business risk, please see Note 27 of **Annex “D”**.

**Item 2. Properties**

The Group's and its significant subsidiaries' residential projects and the Group's leasable properties are described in **Annex “A”**.

The Group and its significant subsidiaries own properties which are described in **Annex “B”**

There are no imminent acquisitions of any material property which cannot be funded by the working capital of the Group and its significant subsidiaries.

### Item 3. Legal Proceedings

The Group and its significant subsidiaries are not currently involved in any litigation or legal proceedings that could be expected to have a material adverse effect on the Group and its significant subsidiaries or their respective results of operations.

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

The matter of the increase in authorized capital stock and the amendment of the Company's Articles of Incorporation to reflect the said increase as well as the denial of pre-emptive rights of the existing stockholders were submitted for approval during the December 17, 2015 Special Stockholders' Meeting through the solicitation of proxies or otherwise.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Group's Common Equity and Related Stockholder Matters –

The Company's common equity is no longer traded in the Philippine Stock Exchange. Effective May 6, 2013, the Philippine Stock Exchange (PSE) has approved the Petition for Voluntary Delisting by the Company and consequently ordered the delisting of the Company's shares from the Official Registry of PSE.

There are no extraordinary restrictions that limit the ability of the Company to pay dividends in common stock.

The approximate number of shareholders of common shares as of December 31, 2019 is 909.

The top 20 stockholders of the Company as of December 31, 2019 are as follows:

| Rank | Name of Stockholders                       | Nationality | No. of Shares | % of Total O/S |
|------|--------------------------------------------|-------------|---------------|----------------|
| 1    | San Miguel Corporation                     | Filipino    | 717,796,487   | 99.74          |
| 2    | Philippine Breweries Corporation           | Filipino    | 1,525,672     | 0.211993       |
| 3    | San Miguel Foundation, Inc.                | Filipino    | 280,332       | 0.038952       |
| 4    | Heirs of Fidel & Teresita Reyes, Inc.      | Filipino    | 15,667        | 0.002177       |
| 5    | Ronald Manese                              | Filipino    | 3,744         | 0.000520       |
| 6    | Society of the Divine Word                 | Filipino    | 3,456         | 0.000480       |
| 7    | B.R. Medrano                               | Filipino    | 2,196         | 0.000305       |
| 8    | Ronald S. Po                               | Filipino    | 1,840         | 0.000256       |
| 9    | Anglo Agricultural Development Corporation | Filipino    | 1,776         | 0.000247       |
| 10   | Benjamin C. Reyes                          | Filipino    | 1,744         | 0.000242       |
| 11   | Ma. Luisa Llamado                          | Filipino    | 1,734         | 0.000241       |
| 12   | Arturo C. Reyes                            | Filipino    | 1,730         | 0.000240       |
| 13   | Amado O. Milan and/or Dolores Milan        | Filipino    | 1,728         | 0.000240       |
| 14   | Varifold Marketing Corporation             | Filipino    | 1,728         | 0.000240       |
| 15   | PCD Nominee Corporation (Filipino)         | Filipino    | 1,669         | 0.000232       |
| 16   | Teresita R. Reyes                          | Filipino    | 1,458         | 0.000203       |
| 17   | Eva S. Recio                               | Filipino    | 1,399         | 0.000194       |
| 18   | G. D. Tan & Co., Inc.                      | Filipino    | 1,090         | 0.000151       |
| 19   | Antonio Q. Sevilla                         | Filipino    | 1,000         | 0.000139       |
| 20   | Aurelia V. Agonias                         | Filipino    | 864           | 0.000120       |

There were no dividends declared or cash dividends payout on the Company's common shares for the last two (2) fiscal years. On March 14, 2017, the BOD approved that the Five Billion (P5,000,000,000.00) funds used to appropriate for the projects of the Company such as but not limited to the residential townhouse projects and the service hotel apartment be reversed as they have already been completed or substantially completed. The BOD likewise approved the appropriation of Four Billion Five Hundred Million Pesos (P4,500,000,000.00) of the Company's retained earnings for its capital projects and long-term project development.

The Company has not sold any unregistered or exempt securities (including issuance of securities constituting an exempt transaction) within the past three (3) fiscal years.

#### **Item 6. Management's Discussion and Analysis of Financial Conditions and Results of Operations**

The information required by Part III, Paragraph (A) of Sec. 17.1 of the Securities Regulation Code is attached hereto as **Annex "C"**.

#### **Item 7. Financial Statements**

The 2019 Audited Consolidated Financial Statements of the Group, including its Statement of Management's Responsibility and Auditor's Report, are attached as **Annex "D"** with the Supplementary Schedules Consolidated Financial Statements (Annex 68-E, SRC Rule 68), including the Auditor's Report on the Supplementary Schedules, attached as **Annex "D.1"**.

#### **Item 8. Information on Independent Accountant and Other Related Matters**

##### **A. External Audit Fees and Services**

The accounting firm of Punongbayan and Araullo ("P&A") served as the Group's external auditor for the fiscal year.

The Group's total audit fees for 2019 amounted to P4.8 million, inclusive of out-of-pocket expenses. There were no other additional services rendered by P & A to the Group and its subsidiaries in 2019.

The stockholders approve the appointment of the Group's external auditors. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations.

##### **B. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There are no disagreements with external accountants on accounting and financial disclosure.

### **PART III – CONTROL AND COMPENSATION INFORMATION**

#### **Item 9. Directors and Executive Officers of the Issuer**

The names of the incumbent directors, nominees for election as directors and key executive officers of the Group, and their respective ages, periods of service, directorships in other reporting companies and positions in the last five (5) years are as follows:

**Ramon S. Ang**, Filipino, 66, is the Chairman (since May 28, 2002) and President of the Company (since August 11, 2010), respectively. He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer (COO) of San Miguel Corporation; President and Chief Executive Officer (CEO) of Petron Corporation, Top Frontier Investment Holdings, Inc., San Miguel Food and Beverage, Inc., Northern Cement Corporation; Chairman and CEO of SMC Asia Cars Distributors Corp.; Chairman & CEO, President and COO of SMC Global Power Holdings Corp.; Chairman and President of San Miguel Energy Corporation, Trans Aire Development Holdings Corp., Coastal View Exploration Corporation, Bell Telecommunication Philippines, Inc., San Miguel Holdings, Corp., Archen Technologies, Inc., SMITS, Inc.; Chairman of San Miguel Brewery, Inc., Magnolia, Inc., San Miguel Foods, Inc., San Miguel Mills, Inc., San Miguel

Super Coffee Mix Co., Inc., San Miguel Yamamura Packaging Corporation, and 53 wholly-owned subsidiaries of the Company.

**Aurora T. Calderon**, Filipino, 65, has been a Director of the Company since August 11, 2010. She is also the Senior Vice-President and Senior Executive Assistant to the President and Chief Operating Officer (COO) of San Miguel Corporation (SMC) since 2011. She has been a consultant reporting directly to the President and COO of SMC (1998-2010). She is presently a member of the Board of Directors of Petron Corporation, SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., TransAire Development Holdings Corp., Bell Telecommunications Philippines, Inc., San Miguel Equity Investments Inc., and various subsidiaries of SMC. She is currently a member of the Audit and Nomination and Hearing Committee of the Company.

**Minita V. Chico-Nazario**, Filipino, 80, has been an Independent Director of the Company since May 9, 2012. She is currently an Independent Director of Ginebra San Miguel, Inc., Top Frontier Investment Holdings, Inc., and San Miguel Purefoods, Inc. She is also the incumbent Dean of the College of Law of the University of Perpetual Help in Las Pinas City. She has previously held the following positions: Legal Consultant of the Philippine Amusement and Gaming Corporation (January 2010- June 2010) and Metro Manila Development Authority (March 2010-June 2010); and Chairman of the Board of Directors (June 2010-August 2010) and Director (September 2010 – September 2011) of PNOG Exploration Corporation. She has served the judiciary in various capacities for forty-seven years (47), as Presiding Justice of the Sandiganbayan (February 2003 – February 2004) and Associate Justice of the Supreme Court (February 10, 2004 – December 5, 2009). She is a graduate of the University of the Philippines and a member of the New York State Bar. She is the Chairperson of the Company's Audit and Executive Compensation Committees.

**Mario C. Garcia**, Filipino, 68, has been a Director of the Company since November 3, 2009. He is also a Director of San Miguel Pure Foods Company, Inc. and represents the National Government in the Board of Directors of the Subic Bay Metropolitan Authority. He is a TV Host of Kapihan ng Bayan, NBN-4 and Comentario, PBS Radio ng Bayan, Interim National President of KBP Society of Broadcast Journalists, and Consultant of Radio Affairs, Pulis Ng Bayan, PNP. He is previously a Board member of Clark Development Corporation (November 2009-March 2010), member of the Board of Advisers of Freeport Service Corporation (2007-2008), Consultant for Special Projects at the Philippine Daily Inquirer (February-November 2008), Director and Vice Chairman of the Quezon City Red Cross (2006-2007), and Vice President for Programming and Operations and Station Manager of Radio Veritas (1991-2005).

**Hector L. Hofileña**, Filipino, 90, has been a Director of the Company since May 28, 2002. He is a former Director of San Miguel Corporation and a former Associate Justice of the Court of Appeals. Justice Hofileña is a lecturer at the Ateneo De Manila University and the Philippine Judicial Academy. He is a Member of the Company's Nomination and Hearing Committee.

**Jeronimo U. Kilayko**, Filipino, 72, has been nominated as an Independent Director of the Company since March 14, 2017. Mr. Kilayko served as the President and Chief Executive Officer of the United Coconut Planters Bank from 2011 to 2016. He is also former Chairman of the Board of Bank of Commerce from 2007 to 2011. He has been the President of San Miguel Properties, Inc. from 2002 to 2011. He is the President of K5 Distribution, Inc., a family owned company.

**Karen V. Ramos**, Filipino, 55, is the General Manager of the Company since her appointment last March 1, 2016 which was later on confirmed and ratified by the members of the Board of Directors during their March 14, 2016 regular meeting. Previously, she was designated as Officer-in-Charge (OIC) from August 1, 2015 of the Company. She is likewise holding the positions of Sales and Marketing Manager in a concurrent capacity (after the approval of the Board to have the Sales Department merged with the Marketing Department last August 10, 2016 regular board meeting). She used to work as Marketing Manager of the Company since April 1, 2007. She is a former Director of Northpine Land, Inc. Previously, she is connected with the United Coconut Planters Bank as Head of Planning and Design Department, Corporate Services Division

(2004 - 2007) and Head of Special Services Department, Asset Management Division (2000 – 2003).

**Karen M. Cas-Caballa**, Filipino, 46, is the Head of the Legal and Asset Acquisition & Disposition Department of the Company since April of 2010. She was appointed as Corporate Secretary and Compliance Officer as of August 10, 2015. She used to be the Assistant Corporate Secretary of the Company since November 10, 2010. She was first hired as a Consultant from April 2006 to April 2010 in the Office of the General Manager likewise tasked to spearhead the Legal and Asset Management Services Department (formerly known as Asset Management Department) of the Company. Also, Ms. Caballa is currently a Director of Northpine Land, Inc. and San Miguel Properties Centre Condominium Corporation, and the Corporate Secretary of all the subsidiaries of the Company except Integrated Geosolutions, Inc., and Zobel Polo Club Inc.

**Maria Alma C. Geronimo**, Filipino, 49, is the Head of Finance and Treasury Department of the Company since July 2012. She is a former Director for External Affairs and Board of Trustee of Angel John Integrated Academy, and AJIA Vocational and Technical School, Inc., She has previously held the following positions: Audit Supervisor at Sycip, Gorres, and Velayo & CO. (January 1992 – February 1997); Finance Manager at Landco Pacific Company (February 1997 – June 1998); Financial Controller at Degussa Construction Chemicals Group of Companies in the Philippines and in Vietnam (July 1998 – July 2005); Senior Manager in the General Accounting Department of Pilipinas Makro, Inc. (October 2005 – July 2007); and Financial Controller at Headstrong Philippines, Inc. (July 2007 – March 2008). Presently, she is also the Finance and Treasury Head of all the subsidiaries of the Company

**Aurelio A. Rabusa, Jr.** Filipino, 59, is the Manager of the Security and Asset Management Department since May 2017. He is a Retired Military Officer having served as Rear Admiral of the Philippine Navy (PN) from March 1983 to July 2016 of the Armed Forces of the Philippines (AFP). He has also held the following important positions in the AFP such as Deputy Chief of Staff for Reservicst and Retiree Affairs, J9 from 2015-2016; Commander of the Naval Forces Southern Luzon, PN from 2014-2015, Deputy Commander, Western Command of the AFP in 2014, Deputy Commander for Naval Sea Systems Command of the PN from 2012-2014, Chief of Staff of the Naval Education and Training Command of the PN from 2009 to 2012; Executive Officer of the Office of the Staff for Personnel, J1, AFP from 2007 to 2009 and Captain or Commanding Officer of 5 Naval Ships from 2002 to 2005.

**Julius A. Marzoña**, Filipino, 58, is the Manager of Technical Services Department since June 2019. He has a total of 36 years of relevant work experience, having assumed various positions: (1) Project Manager with the rank of Asst. Vice President for the Project Management Group of SM Engineering Design and Development from May 2018 to July 2019 handling 52 projects in 35 locations for the SM Group of Companies; (2) Project Director for the Construction Management Group of Ayala Hotels and Resorts Corporation from March 2016 to April 2018. During this time, he has handled the construction of Seda Hotels in Cebu City and Paranaque as well as the Mandarin Oriental Hotel in Makati City; (3) Team Head with the rank of Vice President for Rockwell Land Corporation. He was tasked as Project Manager for the various developments of Rockwell such as Joya Lofts and Towers, Rockwell Business Center, One Rockwell Project and Edades Tower and Garden Villas, The Grove and other high end projects. During this time, he has also managed to develop the in-house Construction Project Management Team of the Company; and (4) Field Engineer, Civil Engineer and Design and Control Engineer from 1983 to 2016 for various real estate development companies.

#### Term of Office

Pursuant to the Group's Corporate By-Laws, the directors are elected at each annual meeting of the stockholders by the stockholders entitled to vote. Each director holds office until the next annual election and until his successor is duly elected and qualified.

The nominees for election to the Board of Directors in the June 9, 2020 Annual Stockholders' Meeting of the Company, are as follows:

1. Ramon S. Ang
2. Aurora T. Calderon
3. Minita V. Chico-Nazario
4. Mario C. Garcia
5. Hector L. Hofilena
6. Jeronimo U. Kilayko
7. Karen V. Ramos

#### Independent Directors

The independent directors of the Group are Jeronimo U. Kilayko and Minita V. Chico-Nazario. This is the seventh year of Dir. Chico-Nazario as independent director. Under the previous issuance of the SEC particularly SEC Memorandum Circular No. 9, Series of 2011, the term limit set for independent directors shall be 5 years only. However, in an advisory dated March 31, 2016, the SEC extended the term of independent directors to a maximum of nine (9) years.

The nominees for election as independent directors of the Board of Directors on the Stockholder's Meeting which will be held on June 9, 2020 are as follows:

| Nominee for Independent Director<br>(a) | Person/Group recommending nomination<br>(b) | Relation of (a) and (b) |
|-----------------------------------------|---------------------------------------------|-------------------------|
| Jeronimo U. Kilayko                     | Ramon S. Ang                                | None                    |
| Minita V. Chico-Nazario                 | Ramon S. Ang                                | None                    |

In approving the nominations for independent directors, the Nomination and Hearing Committee took into consideration the guidelines on the nomination of independent directors prescribed in SRC Rule 38 and its implementing rules and regulations. The Nomination and Hearing Committee pre-screened the qualifications of the candidates and prepared a final list of the nominees. Under the company's by-laws, the conduct of election of independent directors shall be in accordance with the standard election procedures for regular directors as provided therein, however, specific slots for independent directors shall not be filled up by unqualified nominees and in case of failure of election for independent directors, a separate election shall be called to fill up the vacancy.

The incumbent independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The Certifications of the incumbent directors submitted to the SEC are attached hereto as **Annex "F"** and **Annex "G"**.

#### Significant Employees

The Company has no employee who is not expected to make a significant contribution to the business.

#### Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the directors, executive officers, or nominees for election as directors of the Company

#### Certain Relationships and Related Transactions

There were no transactions with directors, officers or any principal stockholders (owning at least 10%) of the total outstanding shares of the Company) not in the ordinary course of business of the Company.



## Parent Company

As of December 31, 2019, the Company is 99.74% owned by San Miguel Corporation.

## Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers, underwriters or control persons of the Company have been involved in any legal proceeding, including without limitation being the subject of any (a) bankruptcy petition, (b) conviction by final judgment, (c) order, judgment or decree, or (d) violation of a securities or commodities law, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

The Company and its significant subsidiaries are not currently involved in any litigation or legal proceedings that could be expected to have a material adverse effect on the Company and its significant subsidiaries of their respective results of operations.

## **Item 10. Executive Compensation**

The following table summarizes the aggregate compensation paid or accrued during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Group's President and senior executive officers:

| NAME                                                                                | YEAR             | SALARY        | BONUS         | OTHERS       | TOTAL         |
|-------------------------------------------------------------------------------------|------------------|---------------|---------------|--------------|---------------|
| Ramon S. Ang <sup>1</sup> – Chairman and President                                  | 2020 (estimated) | P26.1 Million | P9.3 Million  | P7.3 Million | P42.7 Million |
| Karen V. Ramos – General Manager/ Sales and Marketing Department Manager            | 2019             | P24.7 Million | P11.4 Million | P6.4 Million | P42.5 Million |
| Karen M. Cas-Caballa – Legal and Asset Acquisition & Disposition Department Manager | 2018             | P18.9 Million | P10.0 Million | P4.8 Million | P33.7 Million |
| Maria Alma C. Geronimo– Finance and Treasury Department Manager                     |                  |               |               |              |               |
| Aurelio A. Rabusa, Jr. – Security and Asset Management Department Manager           |                  |               |               |              |               |
| Julius A. Marzoña – Technical Services Department Manager                           |                  |               |               |              |               |
| All other officers and directors as a group unnamed                                 | 2020 (estimated) | P0.0 Million  | P0.0 Million  | P0.0 Million | P0.0 Million  |
|                                                                                     | 2019             | P0.0 Million  | P0.0 Million  | P0.0 Million | P0.0 Million  |
|                                                                                     | 2018             | P0.0 Million  | P0.0 Million  | P0.0 Million | P0.0 Million  |
| <b>TOTAL</b>                                                                        | 2020 (estimated) | P26.1 Million | P9.3 Million  | P7.3 Million | P42.7 Million |
|                                                                                     | 2019             | P24.7 Million | P11.4 Million | P6.4 Million | P42.5 Million |
|                                                                                     | 2018             | P18.9 Million | P10.0 Million | P4.8 Million | P33.7 Million |

<sup>1</sup> While Mr. Ramon S. Ang is the Chairman and President of the Company, he is not receiving any compensation from the Company. His compensation is being paid by the mother company, San Miguel Corporation.

Article III, Section 10 of the Amended By-Laws of the Company provides that by resolution of the Board of Directors, each director shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10%) of the net income before income tax of the Corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting.

In 2019, each director received a per diem of P10,000.00 per attendance at Board meetings of the Company.

There were no other arrangements pursuant to which any of the directors was compensated or is to be compensated, directly or indirectly, during the last fiscal year and the ensuing fiscal year.

There were neither compensatory plans nor arrangements with respect to a named executive officer.

#### **Item 11. Security Ownership of Certain Record and Beneficial Owners**

Owner of record of more than 5% of the company's voting securities as of December 31, 2019 is as follows:

| <b>Title of Class</b> | <b>Name, Address of Record Owner and Relationship with Issuer</b>                                                          | <b>Name of Beneficial Owner and Relationship with Record Owner</b> | <b>Citizenship</b> | <b>No. of Shares Held</b> | <b>Percent</b> |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------|---------------------------|----------------|
| Common                | San Miguel Corporation <sup>2</sup><br>No. 40 San Miguel Avenue,<br>Mandaluyong City 1550,<br>parent company of the issuer | San Miguel Corporation, parent company of the issuer               | Filipino           | 717,796,487               | 99.74%         |

The following are the number of shares of the Company's capital stock (all of which are voting shares) owned of record by the Chairman, directors and nominees for election as director and key officers of the Company, as of December 31, 2019:

| <b>Title of Class</b> | <b>Name of Beneficial Owner</b> | <b>Amount and Nature of Beneficial Ownership</b> | <b>Citizenship</b> | <b>Percent of Class</b> |
|-----------------------|---------------------------------|--------------------------------------------------|--------------------|-------------------------|
| Common                | Ramon S. Ang                    | 1(D)                                             | Filipino           | 0.00%                   |
| Common                | Aurora T. Calderon              | 1(D)                                             | Filipino           | 0.00%                   |
| Common                | Jeronimo U. Kilayko             | 1(D)                                             | Filipino           | 0.00%                   |
| Common                | Hector L. Hofileña              | 1(D)                                             | Filipino           | 0.00%                   |
| Common                | Mario C. Garcia                 | 1(D)                                             | Filipino           | 0.00%                   |
| Common                | Minita V. Chico-Nazario         | 1(D)                                             | Filipino           | 0.00%                   |
| Common                | Karen V. Ramos                  | 1(D)                                             | Filipino           | 0.00%                   |

The aggregate number of shares owned of record by the key officers and directors as a group as of December 31, 2019 is seven (7) shares or approximately 0.00% of the Company's outstanding capital stock.

<sup>2</sup> The Board of Directors of San Miguel Corporation (SMC) authorized any one Group A signatory or any two Group B signatories to act and vote in person or by proxy, shares held by SMC in other corporations. The Group A signatories of SMC are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Joseph N. Pineda, Virgilio S. Jacinto, Aurora T. Calderon, and Sergio G. Edeza. The Group B signatories of SMC are Bella O. Navarra, Cecile Caroline U. de Ocampo, Manuel M. Agustin, Lorenzo G. Formoso III, Almira C. Dalusung, Ma. Raquel Paula G. Lichauco, and Casiano B. Cabalan, Jr.

The foregoing beneficial or record owners have no right to acquire additional shares within thirty (30) days from options, warrants, conversion privileges or similar obligations or otherwise.

There is no person holding more than 5% of the Company's voting securities under a voting trust or similar agreement.

Since the beginning of the last fiscal year, there were no arrangements which resulted in a change in control of the Company.

**Item 12. Certain Relationships and Related Transactions**

For the Group's related party transactions please see Note 23 of **Annex "D"**.

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Group) not in the ordinary course of business.

**PART IV – EXHIBITS AND SCHEDULES**

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

(a) Exhibits

The 2019 Audited Consolidated Financial Statements of the Group, including its Statement of Management's Responsibility and Auditor's Report, are attached as **Annex "D"** with the Supplementary Schedules Consolidated Financial Statements (Annex 68-E, SRC Rule 68), including the Auditor's Report on the Supplementary Schedules, attached as **Annex "D.1"**.

The other Schedules as indicated in the Index to Schedules are either not applicable to the Group or require no answer.


(b) Reports on SEC Form 17-C


A summary list of reports on Form 17-C filed in the last twelve month period covered by this report is attached as **Annex "E"**.

**SIGNATURES**

Pursuant to the requirement of the Securities Regulation Code and Section 141 of the Corporation Code, this report has been signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on 7 May 2020.

By:

  
Ramon S. Ang  
Chairman and President

  
**KAREN V. RAMOS**  
General Manager

  
**MARIA ALMA C. GERONIMO**  
Finance and Treasury Department Manager

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ affiants exhibiting to me their respective Passport as follows:

| <u>Name</u>            | <u>Passport No.</u> | <u>Expiry Date</u> | <u>Place of Issuance</u> |
|------------------------|---------------------|--------------------|--------------------------|
| Ramon S. Ang           | P2247867B           | May 21, 2029       | DFA Manila               |
| Karen V. Ramos         | EC8289356           | July 14, 2021      | DFA Manila               |
| Maria Alma C. Geronimo | P8644617A           | Sept. 5, 2028      | DFA NCR East             |

Doc. No.: \_\_\_\_\_

Page No. \_\_\_\_\_

Book No. \_\_\_\_\_

Series of \_\_\_\_\_

**San Miguel Properties, Inc. and Subsidiaries**  
**List of Projects**  
**as of December 31, 2019**

**A. RESIDENTIAL PROJECTS**

| <b>PROJECTS</b>                                 | <b>LOCATION</b>                                                                  |
|-------------------------------------------------|----------------------------------------------------------------------------------|
| Dover Hill (Bright Ventures Realty, Inc.)       | Mabini Street corner Ortega and Pilar Streets, Barangay Addition Hills, San Juan |
| One Dover View ( Carnell Realty, Inc.)          | 621 Lee Street, Barangay Addition Hills, Mandaluyong                             |
| Two Dover View (SMPI)                           | 620 Lee Street, Barangay Addition Hills, Mandaluyong                             |
| Emerald 88 (SMPI)                               | 598 Dr. Sixto Antonio Avenue, Barangay Maybunga, Pasig                           |
| Bel Aldea (SMPI)                                | Brgy. De Fuego Street, General Trias, Cavite                                     |
| Maravilla (SMPI)                                | Brgy. San Francisco, General Trias, Cavite                                       |
| Asian Leaf (SMPI)                               | Brgy. San Francisco, General Trias, Cavite                                       |
| Wedgewoods (Excel Unified Land Resources, Inc.) | Sta. Rosa, Laguna                                                                |

**B. HOSPITALITY PROJECTS**

| <b>PROJECTS</b>                                                     | <b>LOCATION</b>                          |
|---------------------------------------------------------------------|------------------------------------------|
| Makati Diamond Residences (SMPI Makati Flagship Realty Corporation) | 118 Legazpi St., Legazpi Village, Makati |

**C. INDUSTRIAL PROJECTS**

| <b>PROJECTS</b>                                            | <b>LOCATION</b>   |
|------------------------------------------------------------|-------------------|
| Mariveles Economic Zone (E-Fare Investment Holdings, Inc.) | Mariveles, Bataan |

**D. SMPI-OWNED BUILDINGS / LAND / WAREHOUSE**

| <b>PROJECTS</b>                                                              | <b>LOCATION</b>                                                             |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Building and Land Lease of San Miguel Corporation Head Office Complex (SMPI) | No. 40 San Miguel Avenue, Ortigas, Mandaluyong City                         |
| Building Lease of 808 Building (SMPI)                                        | Meralco Avenue corner Gen. Lim Street, Barangay San Antonio, Pasig City     |
| Building Lease of Six (6) Units in San Miguel Properties Centre (SMPI)       | No. 7 Saint Francis Street, Ortigas, Mandaluyong City                       |
| Land Lease of Cauayan, Isabela Property (SMPI)                               | National Highway, Brgy. Prenza, Cauayan, Isabela                            |
| Warehouse Lease of Rengo Warehouse and Land Lease of Sucat Property (SMPI)   | Dr. A. Santos Avenue (Sucat Road), Parañaque                                |
| Building Lease of Delgado Building (La Verduras Realty Corp.)                | No. 38 Gen. Delgado St., San Antonio Village, Brgy. San Antonio, Pasig City |

|                                                                                   |                                                                                                                                          |
|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| Land Lease of Bunawan, Davao City Property (SMPI)                                 | Along Davao-Agusan National Highway, Brgy. Bunawan, Davao City                                                                           |
| Land Lease of Antipolo City Property (SMPI)                                       | Crestview Circle, Crestview Heights Subd., Brgy. San Roque, Antipolo City                                                                |
| Land Lease of Parking Space for El Magnifico Building (Kingsborough Realty, Inc.) | No. 37 Gen. Delgado St., San Antonio Village, Brgy. San Antonio, Pasig City                                                              |
| Land Lease of General Trias, Cavite Property (SMPI)                               | Arnaldo Highway, Brgy. San Francisco, Gen. Trias, Cavite<br><br>Arnaldo Highway, Brgy. San Francisco, Sitio De Fuego, Gen. Trias, Cavite |

#### **E. TOURISM DEVELOPMENT PROJECTS**

| <b>PROJECTS</b>                                                    | <b>LOCATION</b>                                          |
|--------------------------------------------------------------------|----------------------------------------------------------|
| Boracay Gateway Project Tourism Zone (La Belle Plume Realty, Inc.) | Brgy. Union, Nabas, Aklan / Brgy. Malay, Caticlan, Aklan |
| Beachfront Resort Hotel and Spa (Moonspring Development Inc.)      | Brgy. Union, Nabas, Aklan                                |
| Aqean Bay Waterpark (Newsclapes Haven Development Inc.)            | Brgy. Union, Nabas, Aklan                                |
| Transit Hotel (Caticlanscapes Realty Development Inc.)             | Brgy. Union, Nabas, Aklan                                |

# Annex “B”

## PROPERTIES

|   | <b>Company Name / Subsidiary</b> | <b>Address</b>                                                                                                         | <b>Rented / Owned</b> | <b>Condition</b> |
|---|----------------------------------|------------------------------------------------------------------------------------------------------------------------|-----------------------|------------------|
| 1 | San Miguel Properties, Inc.      |                                                                                                                        |                       |                  |
|   | Bel Aldea Subdivision            | Brgy. San Francisco, Gen. Trias, Cavite                                                                                | Owned                 | Good             |
|   | Maravilla Subdivision            | Brgy. San Francisco, Gen. Trias, Cavite                                                                                | Owned                 | Good             |
|   | Asian Leaf Subdivision           | Brgy. San Francisco, Gen. Trias, Cavite                                                                                | Owned                 | Good             |
|   | Office Spaces                    | San Miguel Properties Centre, Mandaluyong City                                                                         | Owned                 | Good             |
|   | Office Building                  | 155 Edsa (SMITS), Ortigas Center, Mandaluyong City                                                                     | Owned                 | Good             |
|   | 2 Dover                          | 620 Lee St., Mandaluyong City                                                                                          | Owned                 | Good             |
|   | Land                             | San Isidro Road cor. Unnamed road lot, Brgy. Tatalon, Cabuyao, Laguna                                                  | Owned                 | Good             |
|   | Land and Building                | 808 Bldg. Meralco Avenue corner General Lim St. Brgy. San Antonio, Pasig City                                          | Owned                 | Good             |
|   | Land                             | Along Commerce Avenue Corner Asean Drive And Jakarta Lane, Filinvest Corporate City, Barangay Alabang, Muntinlupa City | Owned                 | Good             |
|   | Land                             | Brgy. Canlubang and Majada, Calamba City, Laguna                                                                       | Owned                 | Good             |
|   | Land                             | Bo. de Fuego, Gen. Trias, Cavite                                                                                       | Owned                 | Good             |
|   | Land                             | Barrio Sinaliw Munti, Alfonso, Cavite                                                                                  | Owned                 | Good             |
|   | Land                             | Barangays Of Mabatac, Sinaliw And Kaytitinga, Sitios Of Amuyong & Haulian, Alfonso, Cavite                             | Owned                 | Good             |
|   | Land                             | Brgys. Lourdes and Santiago, Lubao, Pampanga                                                                           | Owned                 | Good             |
|   | Land                             | Cagay Road, Barangay Asid, Masbate City                                                                                | Owned                 | Good             |
|   | Land                             | Brgy. Tagabuli, Sta. Cruz, Davao del Sur                                                                               | Owned                 | Good             |
|   | Land                             | Sitio Landing, Brgy. Darong, Sta. Cruz, Davao del Sur                                                                  | Owned                 | Good             |
|   | Land                             | Brgy. Darong, Sta. Cruz, Davao del Sur                                                                                 | Owned                 | Good             |
|   | Land                             | Brgy. Bato, Sta. Cruz, Davao del Sur                                                                                   | Owned                 | Good             |
|   | Land                             | Brgy. Yapak, Boracay Island, Malay, Aklan                                                                              | Owned                 | Good             |
|   | Land / Warehouse (GSMI)          | 327 Brgy. Prenza-San Fermin, Cauayan City, Isabela                                                                     | Owned                 | Good             |
|   | Land                             | 471 F. Ortigas St., Brgy. Hagdang Bato Libis, Mandaluyong City                                                         | Owned                 | Good             |
|   | Land/Building/Improvements       | San Miguel Corporation - Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City                               | Owned                 | Good             |
|   | Land / Warehouse                 | Dr. A Santos Ave. (Sucat Road), Parañaque City                                                                         | Owned                 | Good             |

| <b>Company Name / Subsidiary</b> |                                                                | <b>Address</b>                                                                 | <b>Rented / Owned</b> | <b>Condition</b> |
|----------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------|------------------|
|                                  | Land                                                           | Brgy. Boot, Tanuan, Batangas                                                   | Owned                 | Good             |
|                                  | Land                                                           | Brgy. Glamang (Silway), Polomolok, South Cotabato                              | Owned                 | Good             |
|                                  | Land                                                           | Maragondon / Mabacao - Magallanes Road, Brgy. Mabato, Maragondon, Cavite       | Owned                 | Good             |
|                                  | Land                                                           | Acacia St., Brgy. Hagdang Bato, Mandaluyong City                               | Owned                 | Good             |
|                                  | Emerald 88                                                     | Sixto Avenue, Maybunga, Pasig City                                             | Owned                 | Good             |
|                                  | Land                                                           | National Road, Barangay Bunawan, Davao City                                    | Owned                 | Good             |
|                                  | Land                                                           | Crestview Circle, Crestview Heights Subd., Brgy. San Roque, Antipolo City      | Owned                 | Good             |
|                                  | Land                                                           | 618 Lee Street, Mandaluyong City                                               | Owned                 | Good             |
|                                  | Land                                                           | Barrio Baan, Butuan City                                                       | Owned                 | Good             |
|                                  | Land                                                           | Brgy. Tawala, Panglao, Bohol                                                   | Owned                 | Good             |
|                                  | Land                                                           | Brgy. Sasa, Davao City                                                         | Owned                 | Good             |
| 2                                | Elite Montagne Realty, Corp. (formerly Bel-Aldea Realty, Inc.) |                                                                                |                       |                  |
|                                  | Land and Building                                              | No. 77 IPO St. Brgy. Paang Bundok, La Loma, Quezon City                        | Owned                 | Good             |
| 3                                | Bright Ventures Realty, Inc.                                   |                                                                                |                       |                  |
|                                  | Dover Hill                                                     | A. Marcos cor M.H. del Pilar and A. Mabini Sts., Addition Hills, San Juan City | Owned                 | Good             |
|                                  | Land                                                           | No. 168 Pilar Corner P. Zamora Sts., Brgy. Addition Hills, San Juan City       | Owned                 | Good             |
| 4                                | Brillar Realty and Development Corp.                           |                                                                                |                       |                  |
|                                  | Land                                                           | Limbones Island, Brgy. Papaya, Nasugbu, Batangas                               | Owned                 | Good             |
| 5                                | Dimanyan Wakes Holdings, Inc.                                  |                                                                                |                       |                  |
|                                  | Land                                                           | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                | Owned                 | Good             |
| 6                                | Busuanga Bay Holdings Inc.                                     |                                                                                |                       |                  |
|                                  | Land                                                           | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                | Owned                 | Good             |
| 7                                | Bulalacao Property Holdings, Inc.                              |                                                                                |                       |                  |
|                                  | Land                                                           | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                | Owned                 | Good             |
| 8                                | Calamian Prime Holdings, Inc.                                  |                                                                                |                       |                  |
|                                  | Land                                                           | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                | Owned                 | Good             |
| 9                                | Palawan White Sands Holdings Corp.                             |                                                                                |                       |                  |
|                                  | Land                                                           | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                | Owned                 | Good             |
| 10                               | Coron Islands Holdings, Inc.                                   |                                                                                |                       |                  |
|                                  | Land                                                           | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                | Owned                 | Good             |
| 11                               | Rapidshare Realty and Development Corporation                  |                                                                                |                       |                  |
|                                  | Land                                                           | 341 Northwestern St., Brgy. Wack-Wack, Greenhills, Mandaluyong City            | Owned                 | Good             |



| <b>Company Name / Subsidiary</b> |                                       | <b>Address</b>                                                                       | <b>Rented / Owned</b> | <b>Condition</b> |
|----------------------------------|---------------------------------------|--------------------------------------------------------------------------------------|-----------------------|------------------|
|                                  | Land and Building                     | Ortigas Street, Barangay Wack-Wack, Greenhills, Mandaluyong City                     | Owned                 | Good             |
| 12                               | SMC Originals, Inc.                   |                                                                                      |                       |                  |
|                                  | Land                                  | Antonio Arnaiz Avenue corner Estacion St., Brgy. Pio del Pilar, Makati City          | Owned                 | Good             |
| 13                               | Silang Resources, Inc.                |                                                                                      |                       |                  |
|                                  | Land                                  | Barangays San Vicente, San Miguel, Biluso And Lucsuhin, Silang, Cavite               | Owned                 | Good             |
| 14                               | Tanauan Resources, Inc.               |                                                                                      |                       |                  |
|                                  | Land / Improvement                    | No. 34 McKinley Road, Brgy. Forbes Park (North Side), Makati City                    | Owned                 | Good             |
| 15                               | SMPI Makati Flagship Realty Corp.     |                                                                                      |                       |                  |
|                                  | Land and Building                     | 117 Legaspi and Gallardo Sts., Legaspi Village, Makati City                          | Owned                 | Good             |
| 16                               | Carnell Realty, Inc.                  |                                                                                      |                       |                  |
|                                  | One Dover                             | 621 Lee St., Mandaluyong City                                                        | Owned                 | Good             |
| 17                               | Grandioso Realty Corporation          |                                                                                      |                       |                  |
|                                  | Land                                  | National Road, Brgy. Tambler, General Santos City                                    | Owned                 | Good             |
| 18                               | Sta. Cruz Resource Management, Inc.   |                                                                                      |                       |                  |
|                                  | Land and Building                     | 54 & 50 Hydra St., Bel Air 3, Makati City                                            | Owned                 | Good             |
| 19                               | Maison 17 Properties, Inc.            |                                                                                      |                       |                  |
|                                  | Makati Diamond Residence              | 116 Legaspi and Gallardo Sts., Legaspi Village, Makati City                          | Owned                 | Good             |
| 20                               | Integrated Geosolutions, Inc.         |                                                                                      |                       |                  |
|                                  | Land                                  | Bo.Diezmo, Cabuyao, Laguna                                                           | Owned                 | Good             |
| 21                               | Tierra Castellanas Devt. Inc.         |                                                                                      |                       |                  |
|                                  | Land                                  | Brgy. Bungoy, Dolores, Quezon                                                        | Owned                 | Good             |
| 22                               | Excel Unified Land Resources Corp.    |                                                                                      |                       |                  |
|                                  | Wedge Woods Subdivision               | Silang, Cavite                                                                       | Owned                 | Good             |
| 23                               | 512 Acacia Holdings, Inc.             |                                                                                      |                       |                  |
|                                  | Land / Improvement                    | 512 Acacia Ave., Ayala Alabang Village Phase II-A, Barangay Alabang, Muntinlupa City | Owned                 | Good             |
| 24                               | La Verduras Realty Corp.              |                                                                                      |                       |                  |
|                                  | Land / Building                       | No.38 Gen. Delgado Street, San Antonio Village, Pasig City                           | Owned                 | Good             |
| 25                               | First Monte Sierra Realty Corporation |                                                                                      |                       |                  |
|                                  | Land                                  | Brgy. San Antonio, Basco, Batanes                                                    | Owned                 | Good             |
| 26                               | Lanes and Bi-Ways Realty Corp.        |                                                                                      |                       |                  |
|                                  | Land (Future site of BMW Office)      | 403 Columbia St., East Greenhills, Mandaluyong City                                  | Owned                 | Good             |
| 27                               | Premiata Realty, Inc.                 |                                                                                      |                       |                  |
|                                  | Land                                  | 52 Mercedes cor 61 Aries, Bel Air 3, Makati City                                     | Owned                 | Good             |
| 28                               | Picanto de Alta Realty Corp.          |                                                                                      |                       |                  |
|                                  | Land                                  | 1331 J.P. Laurel St. Brgy. 643 Zone 066, San Miguel District, Manila                 | Owned                 | Good             |

|    | <b>Company Name / Subsidiary</b>      | <b>Address</b>                                                                           | <b>Rented / Owned</b> | <b>Condition</b> |
|----|---------------------------------------|------------------------------------------------------------------------------------------|-----------------------|------------------|
| 29 | Kingsborough Realty, Inc.             |                                                                                          |                       |                  |
|    | Land                                  | 37 Gen. Delgado St., San Antonio Village, Pasig City                                     | Owned                 | Good             |
| 32 | E- Fare Investment Holdings Inc.      |                                                                                          |                       |                  |
|    | Land                                  | Mariveles Bataan                                                                         | Owned                 | Good             |
| 33 | Zee2 Resources Inc.                   |                                                                                          |                       |                  |
|    | Land                                  | 82 Cambridge Circle, North Forbes Park, Makati City                                      | Owned                 | Good             |
| 34 | Quick Silver Development Corp.        |                                                                                          |                       |                  |
|    | Land                                  | 50 McKinley Road North Forbes Park Makati City                                           | Owned                 | Good             |
| 35 | Uno Clarity Investment Holdings, Inc. |                                                                                          |                       |                  |
|    | Land                                  | Brgy. Bel-Is, Buruanga, Aklan                                                            | Owned                 | Good             |
| 36 | Roca Pesada Realty Corporation        |                                                                                          |                       |                  |
|    | Land                                  | 118 Esteban Abada St. Varsity Hills, Quezon City                                         | Owned                 | Good             |
| 37 | Casa Sabroso Holdings Inc.            |                                                                                          |                       |                  |
|    | Land                                  | Ilongot St. La Vista, Quezon City                                                        | Owned                 | Good             |
| 38 | Apice Solare Resources Corp.          |                                                                                          |                       |                  |
|    | Land                                  | National Road, Barangay Igmaya-an, District 1, Don Salvador Benedicto, Negros Occidental | Owned                 | Good             |
| 39 | La Belle Plume Realty, Inc.           |                                                                                          |                       |                  |
|    | Land                                  | Brgy. Union, Nabas, Aklan                                                                | Owned                 | Good             |
|    | Land                                  | Brgy. Naasog, Malay Aklan                                                                | Owned                 | Good             |
| 40 | One Wilson Cayenne Holdings, Inc.     |                                                                                          |                       |                  |
|    | Land                                  | J. R. Yulo St. Mandaluyong City                                                          | Owned                 | Good             |
| 41 | Max Harvest Holdings Inc.             |                                                                                          |                       |                  |
|    | Land                                  | Brgy. Anyatam, San Ildefonso, Bulacan                                                    | Owned                 | Good             |

Note : All owned properties are free of liens and encumbrances.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE**

The following discussion should be read in conjunction with the attached audited consolidated financial statements of San Miguel Properties, Inc. (“SMPI” or the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended December 31, 2019 (with comparative figures as of December 31, 2018 and for the period ended December 31, 2017). All necessary adjustments to present fairly the consolidated financial position, performance and cash flows of the Group as of December 31, 2019, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### ***1.1. Basis of Preparation of Consolidated Financial Statements***

##### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

In applying the equity method on the Group’s investment in BOC in 2018 and prior years, adjustments to BOC’s audited financial statements were made to conform its accounting policies to that of the Group’s accounting policies in accordance with PFRS (see Note 2.3).

##### ***(b) Presentation of Consolidated Financial Statements***

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income, expenses and other comprehensive income or loss in a single consolidated statement of comprehensive income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated

statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values are stated in thousands except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Group's functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

**1.2. Adoption of New and Amended PFRS**

(a) *Effective in 2019 that are Relevant to the Group*

The Group adopted for the first time the following PFRS, amendments, interpretations and annual improvements to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

|                                                                        |   |                                                                                                    |
|------------------------------------------------------------------------|---|----------------------------------------------------------------------------------------------------|
| PFRS 16                                                                | : | Leases                                                                                             |
| PAS 19 (Amendments)                                                    | : | Employee Benefits – Plan Amendment, Curtailment or Settlement                                      |
| PAS 28 (Amendments)                                                    | : | Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures |
| PFRS 9 (Amendments)                                                    | : | Financial Instruments – Prepayment Features with Negative Compensation                             |
| International Financial Reporting Interpretations Committee (IFRIC) 23 | : | Uncertainty over Income Tax Treatments                                                             |
| Annual Improvements to PFRS (2015-2017 Cycle)                          |   |                                                                                                    |
| PAS 12 (Amendments)                                                    | : | Income Taxes – Tax Consequences of Dividends                                                       |
| PAS 23 (Amendments)                                                    | : | Borrowing Costs – Eligibility for Capitalization                                                   |

|                                    |   |                                                                                                                         |
|------------------------------------|---|-------------------------------------------------------------------------------------------------------------------------|
| PFRS 3 and PFRS 11<br>(Amendments) | : | Business Combinations and Joint<br>Arrangements – Remeasurement<br>of Previously Held Interests<br>in a Joint Operation |
|------------------------------------|---|-------------------------------------------------------------------------------------------------------------------------|

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

- (i) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Group has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the consolidated financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained Earnings for the current period. Accordingly, comparative information were not restated.

The new accounting policies of the Group as a lessee and a lessor are disclosed in Notes 2.18(a) and 2.18(b), respectively.

Discussed below are the relevant information arising from the Group’s adoption of PFRS 16 and how the related accounts are measured and presented on the Group’s consolidated financial statements as at January 1, 2019.

- a. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.
- b. The Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of January 1, 2019. The Group’s weighted average incremental

borrowing rate applied to the lease liabilities on January 1, 2019 was 8.86%.

- c. The Group elected to measure the right-of-use assets at its carrying amount as if the new standard has been applied since the commencement date of the lease, adjusted for any prepaid lease payments, but discounted using the lessee's incremental borrowing rate as at January 1, 2019.
- d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.
- e. For subleases classified as finance lease, the Group derecognized the right-of-use asset allocated to the said sublease and recognized finance lease receivable in its consolidated statement of financial position. The difference between the recognized finance lease receivable and derecognized right-of-use asset is recognized as part of Miscellaneous under Other Operating Expenses account in the 2019 consolidated statement of comprehensive income.
- f. The Group has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:
  - (i) reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets; and,
  - (ii) use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the consolidated statement of financial position as at January 1, 2019:

|                          | Note | Carrying amount<br>(PAS17) December<br>31, 2018 | Remeasurement | Carrying amount<br>(PFRS16) January<br>1, 2019 |
|--------------------------|------|-------------------------------------------------|---------------|------------------------------------------------|
| <i>Assets:</i>           |      |                                                 |               |                                                |
| Receivables:             |      |                                                 |               |                                                |
| Current                  | 7    | 548,925                                         | 7,152         | 556,077                                        |
| Non current              | 7    | 635,449                                         | 72,924        | 708,373                                        |
| Investment properties    | 25   | 7,845,552                                       | 52,255        | 7,897,807                                      |
| Property and equipment   | 13   | P 4,736,870                                     | 907           | 4,737,777                                      |
| <i>Liabilities:</i>      |      |                                                 |               |                                                |
| Accounts payable         | 17   | 11,152                                          | ( 11,152)     | -                                              |
| Lease liabilities:       |      |                                                 |               |                                                |
| Current                  | 18   | -                                               | 8,794         | 8,794                                          |
| Non current              | 18   | -                                               | 136,785       | 136,786                                        |
| Deferred tax liabilities | 23   | 63,369                                          | ( 3,989)      | 59,380                                         |
| Impact on net assets     |      |                                                 | P 2,800       |                                                |

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>Notes</u> |   |                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---|-----------------|
| Operating lease commitments,<br>December 31, 2018 (PAS 17)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 27.3         | P | 206,917         |
| Discount using incremental<br>borrowing rate                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 2.2(a)(i)(b) | ( | <u>61,338</u> ) |
| Lease liabilities, January 1, 2019<br>(PFRS 16)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |              | P | <u>145,579</u>  |
| (ii) PAS 19 (Amendments), <i>Employee Benefits – Plan Amendment, Curtailment or Settlement</i> . The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to |              |   |                 |

determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Group's consolidated financial statements.

- (iii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The application of these amendments had no significant impact on the Group's consolidated financial statements.
- (iv) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Group's consolidated financial statements.
- (v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. The application of this interpretation had no significant impact on the Group's consolidated financial statements.
- (vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:
  - PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the



entity originally recognized the transactions that generated the distributable profits.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.
- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments to clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

(b) *Effective Subsequent to 2019 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.
- (ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include

(a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

## **I. 2019 KEY TRANSACTIONS**

### *(a) Acquisition of New Companies*

The Company has acquired the following entities to further increase its asset portfolio and investment holdings: (1) Max Harvest Investment Holdings (Max Harvest) where the Company initially invested via subscription of 15,000 shares for a total subscription price of P1.5 million to obtain 100% ownership of the Company's equity. The subscription was fully paid during the same period. The Board of Directors later on approved the increase of the authorized capital stock (ACS) of Max Harvest from 50,000 shares to 400,000 shares. With the increase in the ACS, the Company has also increased its investment from P1.5 million to P33.1 million; 2) Imperio Sureste Realty Inc. where the Company invested via subscription of 249,995 shares equivalent to P249,995; 3) Bricktree Properties, Inc. where the Company subscribed 249,995 shares, or equivalent to 100% of ownership; 4) One Wilson Cayenne Holdings, Inc. where the Company invested via subscription 250,000 shares for a total subscription price of P250,000 and 5) Tierra Verdosa Real Estate Services, Inc. where the Company invested via subscription of 250,000 shares equivalent to P250,000.

### *(b) Acquisition of properties*

During the quarter, the Company acquired properties located in Western Visayas and Central Luzon which are accounted under Deposit on Land for Future Development and T=Investment property.

### *(c) Extension of Corporate term*

The Securities and Exchange Commission approved the extension of the Company's corporate life from January 23, 2019 to January 23, 2069. Under the

It should be noted, however, that with the passage of Republic Act 11232, or the Revised Corporation Code, on 20 February 2019, a corporation can now be created with a perpetual existence unless the provide otherwise. All existing corporations (with fixed terms) shall automatically be deemed to have perpetual existence unless a majority of its stockholders inform the SEC of its intent to retain the fixed term in its article of incorporation (AOI).

*(d) Additional SMC subscription*

On December 23, 2019, the Group issued additional shares to SMC from the unsubscribed portion of the existing authorized capital stock amounting to P1,150,000 divided into 57,500,000 shares with par value of P10 per share. This share issuance consequently resulted to total additions to capital stock and additional paid-in capital accounts amounting to P575,000 and P569,250, respectively. Total costs directly related to the issuance of shares amounting to P5,750 were deducted from the additional paid-in capital account.

## II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables:

| <i>(in thousands)</i>                                           | Years Ended December 31 |             |             |
|-----------------------------------------------------------------|-------------------------|-------------|-------------|
|                                                                 | 2019                    | 2018        | 2017        |
| Revenues                                                        | <b>P 1,942,910</b>      | P 1,897,612 | P 2,393,675 |
| Gross profit                                                    | <b>1,062,473</b>        | 873,099     | 1,156,760   |
| Other operating expenses                                        | <b>744,867</b>          | 699,444     | 587,224     |
| Finance costs                                                   | <b>( 679,347)</b>       | ( 495,362)  | ( 346,122)  |
| Gain on deconsolidation of investments                          | -                       | 443,140     | 46,790      |
| Finance income                                                  | <b>55,428</b>           | 61,240      | 45,768      |
| Share in profit of associates - net                             | <b>318,288</b>          | 58,469      | 326,918     |
| Miscellaneous income (charges)– net                             | <b>12,874</b>           | 41,266      | ( 23,977)   |
| Profit before tax                                               | <b>24,849</b>           | 282,408     | 618,913     |
| Net profit attributable to Equity holders of the parent company | <b>24,664</b>           | 291,455     | 389,020     |

### **2019 vs. 2018**

The Group ended 2019 with P25 million net income attributable to the net owners of the parent company from P291 million last year, the decrease is mainly due to the sale of Legacy Homes Inc (LHI) in 2018.

Real estate sales decreased from P629 million to P541 million mainly due to the depleting inventory, reduced by the sale of property to a related party this year.

Revenue from the Group's hotel business comprising of room revenues, sale of food and beverages, and others reached P968 million accounting for 50% of the total revenue. This was mainly attributable to the increase in occupancy rate from 78.18% to 85.47% this year.

Rental income increased from P362 million to P404 million or 12% mainly due to the new lease contracts and incremental rates.

Service revenue increased from P20 million to P30 million or 46% mainly due to services rendered to a related party for the current year.

Cost of sales and services decreased by 14% mainly attributed to the reduction in the cost of real estate sold by 43% due the lower real estate sales because of the impact of the depleting inventory and lower cost of the institutional sale of the Company to a related party in 2019. Cost of rental also contributed to the decrease in the cost of sales due to the impact of PFRS 16, *Leases*. However, this was reduced by the increase in cost of room services and food and beverage sold of 6% and 12%, respectively, mainly due to the increase in the improvement of the occupancy rate of Makati Diamond Hotel from 78% to 85%.

The Group's operating expenses increased by 6% as compared to last year mainly due to additional manpower, filing fees incurred by the Company in extending its corporate life, reduced by the provision for receivables set up last year

Finance cost increased by 37% due to the increase in bank charges and interest rates from an average of 3% to 6% on loans availed for land acquisition purposes.

Share in net earnings of associates increased by P260 million as against last year mainly due to the higher net income earned by Bank of Commerce (BOC) and Northpine Land, Inc.

Finance income decreased by 9% mainly due to lower interest earned from placements.

Miscellaneous income decreased from P41 million to P13 million mainly due to higher gain on fair value from backout sale last year.

Tax expense (benefit) decreased from P3 million benefit to P4 million expense mainly due to the sale of LHI in 2018.

### **2018 vs. 2017**

The Group ended the year with P291 million net income attributable to the net owners of the parent company from P389 million net income in 2017. The decrease was mainly due to the decrease in real estate sales and share in profit of associates, reduced by the gain from the deconsolidation of LHI in 2018.

Real estate sales decreased from P1.3 billion to P629 million mainly due to the depleting inventory and institutional sale to a related party in 2017. The Group's real estate revenue was also affected by the adoption of PFRS 15, Revenue from Contracts with Customers, with a net impact of 197 million coming from the partially booked accounts based on percentage of completion method, reversal of backout sales and prior year revenue that should have been booked in 2018. Hotel revenue increased from P748 million to P886 million mainly due to the increase in occupancy rate from 64.3% to 78.2%. Service income increased by P8 million mainly due to the services rendered to a related party in 2018.

Cost of sales and services decreased by P212 million mainly due to the decrease in real estate sales.

The Group's operating expenses increased by 19% as compared to 2017 mainly due to the additional manpower, higher security charges, and higher business and real property taxes.

Finance cost increased from P346 million to P495 million mainly due to the additional loan availments in 2018.

Share in profit of associates decreased from P327 million to P58 million mainly due to the share in lower net income earned by BOC resulting from increase in personnel expenses, taxes, trading and security losses and impact of PFRS 9, Financial Instruments.

Finance income increased by 34% mainly due to the interest earned from placements.

The Group earned P443 million from the deconsolidation of LHI, a wholly owned subsidiary of SMPI. The Group recognized a gain of P47 million from a similar transaction in 2017.

Miscellaneous income (charges) increased to P41 million income from P24 million charges mainly due to impairment loss of investment and provision for doubtful accounts recognized in 2017 amounting to P58 million.

Tax expense of P236 million turned into a tax benefit of P3 million mainly due to the net operating loss carry over utilization (NOLCO) and income tax on the institutional sale to a related party in 2017.

### **2017 vs. 2016**

The Group ended 2017 with P389 million net profit attributable to the owners of the parent company which is higher by P171 million as compared with 2016. This was mainly attributable to higher gross profit by P459 million driven by the institutional sale with P310 million gross profit, reduced by the increase in tax expense from P72 million to P236 million mainly due to the increase in booked sales for Dover Hill project amounting to P667 million, derecognition of deferred tax asset on Makati Diamond Residences' (MDR) NOLCO and customer deposits due to the increase in collection and sales booking.

Real estate sales increased from P680 million to P1.3 billion in 2017, mainly due to higher revenue recognition of Dover Hill project amounting to P667 million. Hotel revenue increased from P688 million to P748 million mainly due to the increase in average room rate and occupancy rate from 61.2% to 64.3% in 2017. Service income increased by P8 million in 2017 mainly due to the services rendered to a related party during the year.

Cost of sales and services increased from P1.02 billion to P1.24 billion mainly due to the increase in revenue of the Group's various projects.

The Group's operating expenses increased by 20% mainly due to the recognition of provision for advances to suppliers, additional manpower, increase in real property taxes and business taxes and depreciation charges due to fully depreciated assets.

Share in net earnings of associates increased by P18 million as against 2016 mainly due to the higher net income earned by BOC.

The Group recognized a gain of P47 million for the sale of the Group's certain investments in wholly owned subsidiaries namely Estima and El Vertice.

Finance income declined from P60 million to P46 million mainly due to the decrease in finance income on long term receivable due to collection.

Miscellaneous income (charges) decreased from P18 million income to P24 million charges mainly due to recognition of impairment loss on investment and provision for doubtful account amounting to P58 million for 2017.

The Group recognized tax expense of P236 million, higher by P164 million mainly due to the derecognition of deferred tax asset on MDR's NOLCO and customer deposits due to the increase in collection and sales booking.

Net loss attributable to non-controlling interest (NCI) increased to P5 million mainly due to the increase in the net loss of certain subsidiaries.

### **III. FINANCIAL POSITION**

#### **2019 vs. 2018**

Cash increased by 104% mainly due to collection and receipt of loan proceeds, additional SMC subscription, reduced by the construction cost for properties in Western Visayas and other projects, and payment for various land acquisition.

Other current assets increased by 11% mainly due to increase in input vat in relation to acquisitions in Western Visayas property.

Deposit on land for future development increased by 22% this year mainly due to the additional deposits made for Western Visayas and Central Luzon properties.

Investment property increased by 11% this year mainly due to additional property acquisitions in Western Visayas, Central Luzon and construction works in Central Luzon.

Property and equipment increased by 23% mainly due to the design and construction cost for the property in Western Visayas, additional assets for Hotel, reduced by the depreciation for the year.

Deferred tax asset increased by 201% mainly due to the increase in NOLCO for the year for certain subsidiaries, collections received for the sale of property in Central Luzon and reversal of capitalized interest.

Loans and borrowings increased by 20% mainly due to the additional availment of loans for the acquisition of various properties.

Trade and other payables increased by 35% mainly due to the increase in payable of certain subsidiary.

Lease liability current amounting to P10 million was recognized in 2019 due to the new accounting standard PFRS 16, *Lease*.

Customers deposit increased by 28% mainly due to sale of property to a related party.

Non-current accounts payable decreased by 100% and non-current lease liability amounting to P125 million was recognized mainly due to the adoption of the new accounting standard PFRS 16, *Lease*.

Retirement benefit liability decreased mainly due to the contribution to the retirement fund amounting P26 million, reduced by the recognition of retirement cost and this year's actuarial valuation amounting to P24 million.

Capital stock and additional paid-in capital increased by P1.14 billion due to the additional subscription of SMC.

Accumulated fair value losses decreased by 72% due to the share in the unrealized gain recognized on BOC's financial assets at fair value through profit and loss (FVTPL).

Cumulative translation adjustment increased by 276% due to the share in translation adjustments recognized by BOC.

Reserve for retirement plan increased by 125% mainly due to the higher share in other comprehensive income of BOC.

### **2018 vs. 2017**

Cash and cash equivalents decreased from P1.2 billion to P797 million or 36% in 2018 mainly due to payment to contractors for the project in Western Visayas, and payment for the acquisition of new subsidiaries and various properties.

Receivables decreased by 25% mainly due to the collection of advances to former subsidiaries and collection of receivables, reduced by the advances to contractors for the project in Western Visayas.

Real estate projects decreased from P2.1 billion to P2.0 billion mainly due to the units sold for Dover Hill and General Trias (GenTri) projects.



Other assets increased to P1.3 billion from P884 million mainly due to the unamortized real property and business taxes, unapplied tax certificates, increase in input value-added taxes due to the structural works in Western Visayas and acquisition of various properties, and recognition of contract asset in compliance with PFRS 15.

Deposits on land for future development decreased from P1.9 billion to P1.8 billion mainly due to the reclassification of deposits for properties acquisitions in Central Luzon, Western Visayas and Metro Manila to investment property.

Investment property increased from P5.4 billion to P7.8 billion mainly due to the acquisition of properties in Central Luzon, Western Visayas and Metro Manila and additional construction works for a property in Metro Manila.

Property and equipment increased from P4.2 billion to 4.7 billion in 2018 mainly due to the structural works in Western Visayas.

Deferred tax asset increased from P11 million to P28 million mainly due to the increase in NOLCO of certain subsidiaries.

Loans and borrowings increased by 18% mainly due to the availment of loans for the acquisition of various properties.

Trade and other payables decreased by 40% mainly due to the settlement of payable relating to acquisition of a new subsidiary and payment for the structural works in Western Visayas.

Income tax payable decreased to P0.8 million due to settlement of income tax for a certain subsidiary.

Accounts payable increased by 50% mainly due to the amortization of PAS17 for the lease of property in Metro Manila.

Retirement benefit liability decreased by 34% mainly due to the payment of contribution amounting to P30 million, reduced by recognition of retirement cost P18 million.

Deferred tax liabilities decreased by 42% mainly due to the NOLCO utilization and minimum corporate income tax recognition in 2017 and decrease in deferred gross profit due to collection during the year.

Capital stock and additional paid-in capital increased by P1.24 billion due to the additional subscription of SMC.

Accumulated fair value losses decreased by 122% mainly due to the share in the unrealized loss recognized on BOC's available-for-sale financial assets.

Cumulative translation adjustment increased by 121% due to the share in translation adjustments recognized by BOC resulting from fluctuations in foreign exchange rates.

Reserve for retirement plan decreased by 23% mainly due to the lower share in other comprehensive income of BOC.

**2017 vs. 2016**

Cash and cash equivalents increased to P1.2 billion from P575 million in 2016 mainly due to the proceeds from sale of the Group's certain investments in wholly owned subsidiaries namely Estima and El Vertice, capital infusion via subscription of SMC and collection of receivables from sale of various projects.

Receivables increased from P1.1 billion to P1.6 billion mainly due to the reclassification to receivable of the advances of SMPI to recently sold subsidiaries and the reversal of receivables related to back out sales for 2017.

Real estate projects decreased from P2.4 billion to P2.1 billion mainly because of the booking of revenue for Dover Hill and GenTri Projects.

Deposit on land for future development increased from P1.8 billion to P1.9 billion mainly due to the advances for the acquisition of properties for future land development.

Investment property increased by 7% mainly due to the acquisition of properties in Makati, Bataan, Quezon City and Negros, reduced by the deconsolidation of properties in Makati resulting from the sale of subsidiaries.

Decrease in deferred tax asset by 84% was mainly due to NOLCO utilization and derecognition of deferred tax asset of MDR.

Trade and other payables increased by 31% mainly because of the recognition of payable for the acquisition of a new wholly owned subsidiary, reduced by the settlement of liabilities for the purchase of the additional shares of a certain subsidiary amounting to P15 million.

Due to related parties decreased by 45% due to the payment of payable to a related party.

Advance rental and deposit increased by 6% due to the advance rental and deposit of new lessees.

Customers' deposit decreased by 53% mainly due to the recognition of Dover Hill sales resulting to the transfer of reservation fees collected from buyers to receivable.

Income tax payable increased to P1 million due to higher taxable income of the Group's operating subsidiaries.

Retirement benefit liability increased by P7 million mainly due to recognition of retirement expense of P16 million reduced by the Group's contribution amounting to P9 million.

Deferred tax liability increased to P108 million from P52 million in 2016 mainly due to the recognition of future taxable income arising from deferred gross profit on real estate sold.

Capital stock and additional paid-in capital increased by P0.5 million due to the additional subscription of SMC.

Accumulated fair value losses increased by 85% due to the share in the unrealized loss recognized on BOC's available-for-sale financial assets.

Cumulative translation adjustment decreased by 34% due to the share in translation adjustments recognized by BOC resulting from fluctuations in foreign exchange rates.

#### IV. SOURCES AND USES OF CASH

A brief summary of cash flow movement is shown below:

| <i>(In thousands)</i>                        | <b>December 31</b>  |              |            |
|----------------------------------------------|---------------------|--------------|------------|
|                                              | <b>2019</b>         | 2018         | 2017       |
| Net cash from (used in) operating activities | <b>P 337,647</b>    | (P 246,911)  | P 608,114  |
| Net cash used in investing activities        | <b>( 2,136,703)</b> | ( 2,603,089) | ( 409,975) |
| Net cash from financing activities           | <b>2,625,129</b>    | 2,401,637    | 472,439    |

Net cash from operations basically consists of income for the period less changes in noncash current assets, certain current liabilities and others.

Net cash used in investing activities includes the following:

| <i>(In thousands)</i>                        | <b>December 31</b>   |               |             |
|----------------------------------------------|----------------------|---------------|-------------|
|                                              | <b>2019</b>          | 2018          | 2017        |
| Acquisitions of property and equipment       | <b>(P 1,275,297)</b> | (P 714,054)   | (P 100,157) |
| Additions to investment property             | <b>( 871,983)</b>    | ( 1,931,725)  | ( 333,923)  |
| Interest received                            | <b>13,187</b>        | 35,039        | 35,039      |
| Additional equity advances                   | <b>( 3,063)</b>      | ( 3,861)      | ( 16,052)   |
| Proceeds from sale of investment property    | <b>1,395</b>         | -             | -           |
| Acquisition of intangible assets             | <b>( 1,008)</b>      | ( 597)        | ( 1,604)    |
| Proceeds from disposal of                    |                      |               |             |
| ▫ property and equipment                     | <b>66</b>            | 5,026         | -           |
| Dividends received                           | <b>-</b>             | 10,083        | 6,256       |
| Net cash from (used in) investing activities | <b>(P 2,136,703)</b> | (P 2,603,089) | (P 409,975) |

Net cash from financing activities includes the following:

| <i>(In thousands)</i>                     |          | <b>December 31</b> |             |            |
|-------------------------------------------|----------|--------------------|-------------|------------|
|                                           |          | <b>2019</b>        | 2018        | 2017       |
| Net proceeds from borrowings              | <b>P</b> | <b>2,075,730</b>   | P 1,533,634 | P 207,481  |
| Proceeds from share issuance of stock     |          | <b>1,150,000</b>   | 1,250,000   | 559,700    |
| Interest paid                             | <b>(</b> | <b>598,903)</b>    | ( 399,180)  | ( 269,115) |
| Collection of lease receivables           |          | <b>14,269</b>      | -           | -          |
| Repayment of lease liabilities            | <b>(</b> | <b>10,217)</b>     | -           | -          |
| Share issuance costs paid                 | <b>(</b> | <b>5,750)</b>      | ( 6,250)    | ( 1,399)   |
| Payments of advances from related parties |          | -                  | 3,433       | ( 24,228)  |
| Net cash from financing activities        | <b>P</b> | <b>2,625,129</b>   | P 2,401,637 | P 472,439  |

## V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurement based on the financial data of the current periods against the same period of previous year. Please refer to Item III - Financial Performance of the MD&A for the discussion of the computed Key Performance Indicators.

| <b>Key Performance Indicators</b>                                           | <b>December 31, 2019</b>        | December 31, 2018 |
|-----------------------------------------------------------------------------|---------------------------------|-------------------|
| Current Ratio                                                               | <b>0.57 : 1.00</b>              | 0.61 : 1.00       |
| Total Assets to Equity Ratio                                                | <b>1.65 : 1.00</b>              | 1.56 : 1.00       |
| Debt to Equity Ratio                                                        | <b>0.66 : 1.00</b>              | 0.57 : 1.00       |
| Return on Average Equity<br>Attributable to Owners of the<br>Parent Company | <b>0.07%</b>                    | 1.37%             |
|                                                                             | <b>Period Ended December 31</b> |                   |
|                                                                             | <b>2019</b>                     | 2018              |
| Volume Growth                                                               |                                 |                   |
| Lease                                                                       | <b>50.04%</b>                   | 11.12%            |
| Real Estate Sales                                                           | <b>8.99%</b>                    | ( 28.73%)         |
| Hotel                                                                       | <b>5.40%</b>                    | 24.15%            |
| Revenue Growth                                                              | <b>2.39%</b>                    | ( 20.72%)         |
| Operating Margin                                                            | <b>16.35%</b>                   | 9.15%             |
| Interest Coverage Ratio                                                     | <b>1.39 : 1</b>                 | 2.14 : 1          |

The manner by which the Group calculates the above indicators is as follows:

| Key Performance Indicators   | Formula                                                                                                                                                                     |
|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current Ratio                | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$                                                                                                                  |
| Total Assets to Equity Ratio | $\frac{\text{Total Assets}}{\text{Equity} + \text{Non-Controlling Interest}}$                                                                                               |
| Debt to Equity Ratio         | $\frac{\text{Total Liabilities (Excluding deferred tax liabilities)}}{\text{Total Equity (Excluding Accumulated Fair Value Loss, CTA, Dilution Loss and Treasury Shares)}}$ |
| Return on Average Equity     | $\frac{\text{Net Income Attributable to Owners of the Parent Company}^*}{\text{Average Equity Attributable to Owners of the Parent Company}}$                               |
| Volume Growth                | $\left( \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$                                                     |
| Revenue Growth               | $\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$                                                                                  |
| Operating Margin             | $\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$                                                                                                          |
| Interest Rate Coverage Ratio | $\frac{\text{EBITDA}}{\text{Interest Expense and Other Financing Charges}}$                                                                                                 |

## V. OTHER MATTERS

### a. Commitments and Contingencies

The following are the significant commitments and contingencies involving the Group:

#### i. *Operating Leases – Group as Lessor*

The Group is a lessor under operating leases covering certain real estate properties. The leases have terms ranging from one to five years, with renewal options, and include annual escalation rates of 3% to 10%.

The future minimum lease collections receivable under these operating leases as are presented below.

| <i>(In Thousands)</i>                        | December 31, 2019 | December 31, 2018 |
|----------------------------------------------|-------------------|-------------------|
| Within one year                              | P 443,300         | P 301,475         |
| After one year but not more than five years  | 1,031,935         | 116,438           |
| After five years but not more than ten years | 5,869,491         | 40,691            |
|                                              | P 7,344,726       | P 458,604         |

*ii. Operating Lease – Group as Lessee*

The Group is a lessee under lease agreement covering a certain parcel of land. The lease contract which expired by the end of 2016 was renewed for another 10 years. Due to the compliance with the new standard PFRS 16, *Leases*, the Company recognized lease liability and interest expense amounting to P149 million and P8 million, respectively. The Company also recognized ROU asset net of depreciation amounting to P29 million.

*iii. Legal Claims*

In 2007, a provision amounting to P4.6 million in connection with Excel Unified's pending settlement of a dispute regarding a right of way in Wedgewoods was recognized. The provision remains outstanding as of the reporting periods. The Group's management, based on the advice of its legal counsels, believes that the recognized provision with regard to its legal case is reasonable and additional liabilities or losses, if any, that may arise from other claims will not have material effect on its consolidated financial statements.

## ANNEX "D"

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**2ND WEDNESDAY OF MAY**

12/31

**MARIA ALMA C. GERONIMO**

**mgeronimo@smg.sanmiguel.com.ph**

**8632-3288**

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



STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR CONSOLIDATED FINANCIAL STATEMENTS

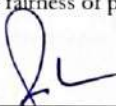
The management of **San Miguel Properties, Inc. and Subsidiaries (the Group)**, is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative to do so.

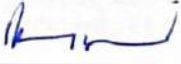
The Board of Directors is responsible for overseeing the Group's financial reporting process.


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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
Ramon S. Ang

Chairman of the Board and President

  
Karen V. Ramos  
General Manager

  
Maria Alma C. Geronimo  
Treasurer

Signed this \_\_\_\_\_

REPUBLIC OF THE PHILIPPINES )  
MANDALUYONG CITY ) S.S.

SUBSCRIBED AND SWORN TO BEFORE ME, this \_\_\_\_\_, the following  
having presented to me their Passport:

|                        | <u>Passport No.</u> | <u>Expiry Date</u> | <u>Place of Issuance</u> |
|------------------------|---------------------|--------------------|--------------------------|
| Ramon S. Ang           | P2247867B           | 05/21/29           | Manila                   |
| Karen V. Ramos         | EC8286356           | 07/14/21           | Manila                   |
| Maria Alma C. Geronimo | P8644617A           | 09/05/28           | NCR East                 |

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of 2020 \_\_\_\_\_



## **Report of Independent Auditors**

**The Board of Directors and Stockholders**  
**San Miguel Properties, Inc. and Subsidiaries**  
**(A Subsidiary of San Miguel Corporation)**  
3rd Floor, San Miguel Head Office Complex  
No. 40 San Miguel Ave., Mandaluyong City

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

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

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

#### ***Basis for Opinion***

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

### ***Emphasis of Matter***

We draw attention to Note 34 to the consolidated financial statements, which describes the negative impact of the business disruption as a result of the corona virus outbreak to the Group's financial condition and performance after the end of the reporting period. Our opinion is not modified in respect to this matter.

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

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

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

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

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

**PUNONGBAYAN & ARAULLO**



**By: Anthony L. Ng**  
Partner

CPA Reg. No. 0109764  
TIN 230-169-270  
PTR No. 8116552, January 2, 2020, Makati City  
SEC Group A Accreditation  
Partner - No. 1638-A (until May 29, 2020)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-038-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 10, 2020

SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES  
*(A Subsidiary of San Miguel Corporation)*  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2019 AND 2018**  
*(With Corresponding Figures as of January 1, 2018)*  
*(Amounts in Thousand Philippine Pesos)*

|                                               | Notes | 2019                       | December 31, 2018<br>(As Restated –<br>see Note 25) | January 1, 2018<br>(As Restated –<br>see Note 25) |
|-----------------------------------------------|-------|----------------------------|-----------------------------------------------------|---------------------------------------------------|
| <b><u>A S S E T S</u></b>                     |       |                            |                                                     |                                                   |
| <b>CURRENT ASSETS</b>                         |       |                            |                                                     |                                                   |
| Cash and cash equivalents                     | 6     | P 1,623,055                | P 796,982                                           | P 1,245,345                                       |
| Receivables - net                             | 7     | 540,025                    | 548,925                                             | 1,226,739                                         |
| Real estate projects                          | 8     | 2,044,712                  | 1,984,081                                           | 2,084,709                                         |
| Raw land inventory                            | 9     | 2,616,146                  | 2,624,031                                           | 2,606,686                                         |
| Other current assets - net                    | 15    | <u>1,350,453</u>           | <u>1,218,516</u>                                    | <u>845,621</u>                                    |
| Total Current Assets                          |       | <u>8,174,391</u>           | <u>7,172,535</u>                                    | <u>8,009,100</u>                                  |
| <b>NONCURRENT ASSETS</b>                      |       |                            |                                                     |                                                   |
| Receivables                                   | 7     | 656,796                    | 635,449                                             | 362,703                                           |
| Deposits on land for future development       | 10    | 2,163,896                  | 1,774,689                                           | 1,932,318                                         |
| Equity advances and investments in associates | 11    | 10,878,542                 | 10,584,355                                          | 10,553,119                                        |
| Investment properties - net                   | 12    | 8,734,403                  | 7,845,552                                           | 5,424,142                                         |
| Property and equipment - net                  | 13    | 5,837,700                  | 4,736,870                                           | 4,210,169                                         |
| Intangible assets - net                       | 14    | 164,911                    | 166,871                                             | 173,087                                           |
| Deferred tax assets                           | 23    | 85,385                     | 28,371                                              | 11,417                                            |
| Other noncurrent assets - net                 | 15    | <u>41,072</u>              | <u>41,072</u>                                       | <u>38,148</u>                                     |
| Total Noncurrent Assets                       |       | <u>28,562,705</u>          | <u>25,813,229</u>                                   | <u>22,705,103</u>                                 |
| <b>TOTAL ASSETS</b>                           |       | <b><u>P 36,737,096</u></b> | <b><u>P 32,985,764</u></b>                          | <b><u>P 30,714,203</u></b>                        |

|                                                    | Notes  | 2019                | December 31, 2018<br>(As Restated –<br>see Note 25) | January 1, 2018<br>(As Restated –<br>see Note 25) |
|----------------------------------------------------|--------|---------------------|-----------------------------------------------------|---------------------------------------------------|
| <b>LIABILITIES AND EQUITY</b>                      |        |                     |                                                     |                                                   |
| <b>CURRENT LIABILITIES</b>                         |        |                     |                                                     |                                                   |
| Loans and borrowings                               | 16     | P 12,433,110        | P 10,357,380                                        | P 8,803,746                                       |
| Trade and other payables                           | 17     | 1,404,991           | 1,036,914                                           | 1,741,919                                         |
| Lease liabilities                                  | 18     | 10,091              | -                                                   | -                                                 |
| Due to related parties                             | 24     | 33,357              | 33,357                                              | 29,924                                            |
| Advance rentals and deposits                       | 24     | 232,450             | 228,622                                             | 231,882                                           |
| Customers' deposits                                | 2      | 193,529             | 151,744                                             | 176,567                                           |
| Income tax payable                                 |        | 829                 | 796                                                 | 1,570                                             |
| Total Current Liabilities                          |        | 14,308,357          | 11,808,813                                          | 10,985,608                                        |
| <b>NONCURRENT LIABILITIES</b>                      |        |                     |                                                     |                                                   |
| Accounts payable                                   | 17     | -                   | 11,152                                              | 7,425                                             |
| Retirement benefit liability                       | 22     | 19,532              | 21,393                                              | 32,394                                            |
| Lease liabilities                                  | 18     | 125,271             | -                                                   | -                                                 |
| Deferred tax liabilities                           | 23     | 69,380              | 63,369                                              | 108,462                                           |
| Total Noncurrent Liabilities                       |        | 214,183             | 95,914                                              | 148,281                                           |
| Total Liabilities                                  |        | 14,522,540          | 11,904,727                                          | 11,133,889                                        |
| <b>EQUITY</b>                                      |        |                     |                                                     |                                                   |
| Equity attributable to owners of the Company       |        |                     |                                                     |                                                   |
| Capital stock                                      | 25     | 7,199,959           | 6,624,959                                           | 5,999,959                                         |
| Additional paid-in capital                         | 25     | 6,692,697           | 6,123,447                                           | 5,504,697                                         |
| Treasury shares - at cost                          | 25     | ( 9,515 )           | ( 9,515 )                                           | ( 9,515 )                                         |
| Accumulated fair value losses                      | 11, 15 | ( 26,348 )          | ( 93,022 )                                          | ( 41,889 )                                        |
| Cumulative translation adjustment                  | 11     | ( 2,627 )           | 1,492                                               | ( 7,102 )                                         |
| Reserve for retirement plan                        | 11, 22 | ( 182,711 )         | ( 81,164 )                                          | ( 105,211 )                                       |
| Other reserves                                     | 5, 25  | ( 280,515 )         | ( 280,515 )                                         | ( 270,299 )                                       |
| Retained earnings                                  | 25     | 8,463,131           | 8,430,567                                           | 8,139,112                                         |
| Total equity attributable to owners of the Company |        | 21,854,071          | 20,716,249                                          | 19,209,752                                        |
| Noncontrolling interest                            | 5      | 360,485             | 364,788                                             | 370,562                                           |
| Total Equity                                       |        | 22,214,556          | 21,081,037                                          | 19,580,314                                        |
| <b>TOTAL LIABILITIES AND EQUITY</b>                |        | <b>P 36,737,096</b> | <b>P 32,985,764</b>                                 | <b>P 30,714,203</b>                               |

See Notes to Consolidated Financial Statements.

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
*(A Subsidiary of San Miguel Corporation)*  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
*(Amounts in Thousand Philippine Pesos, Except Per Share Data)*

|                                        | Notes  | 2019               | 2018<br>(As Restated –<br>see Note 25) | 2017<br>(As Restated –<br>see Note 25) |
|----------------------------------------|--------|--------------------|----------------------------------------|----------------------------------------|
| <b>REVENUES</b>                        | 4      |                    |                                        |                                        |
| Room revenues                          | 24     | <b>P 716,395</b>   | P 667,417                              | P 562,166                              |
| Real estate sales                      | 24     | <b>540,985</b>     | 629,299                                | 1,285,675                              |
| Rental income                          | 24, 27 | <b>404,335</b>     | 362,172                                | 348,013                                |
| Sale of food and beverages             | 24     | <b>218,424</b>     | 193,384                                | 166,131                                |
| Service income                         | 24     | <b>29,724</b>      | 20,390                                 | 12,161                                 |
| Others                                 |        | <b>33,047</b>      | 24,950                                 | 19,529                                 |
|                                        |        | <b>1,942,910</b>   | 1,897,612                              | 2,393,675                              |
| <b>COSTS OF SALES AND SERVICES</b>     | 19     |                    |                                        |                                        |
| Room services                          |        | <b>390,955</b>     | 369,442                                | 321,611                                |
| Real estate sold                       |        | <b>237,085</b>     | 416,737                                | 650,709                                |
| Food and beverages sold                |        | <b>186,971</b>     | 167,496                                | 186,902                                |
| Rentals                                |        | <b>65,426</b>      | 70,838                                 | 77,693                                 |
|                                        |        | <b>880,437</b>     | 1,024,513                              | 1,236,915                              |
| <b>GROSS PROFIT</b>                    |        | <b>1,062,473</b>   | 873,099                                | 1,156,760                              |
| <b>OTHER OPERATING EXPENSES</b>        | 20     | <b>744,867</b>     | 699,444                                | 587,224                                |
| <b>OPERATING PROFIT</b>                |        | <b>317,606</b>     | 173,655                                | 569,536                                |
| <b>OTHER INCOME (CHARGES)</b>          |        |                    |                                        |                                        |
| Finance costs                          | 21     | <b>( 679,347 )</b> | ( 495,362 )                            | ( 346,122 )                            |
| Share in profit of associates          | 11     | <b>318,288</b>     | 58,469                                 | 326,918                                |
| Finance income                         | 21     | <b>55,428</b>      | 61,240                                 | 45,768                                 |
| Miscellaneous income (charges) - net   | 21     | <b>12,874</b>      | 41,266                                 | ( 23,977 )                             |
| Gain on deconsolidation of investments | 5      | <b>-</b>           | 443,140                                | 46,790                                 |
|                                        |        | <b>( 292,757 )</b> | 108,753                                | 49,377                                 |
| <b>PROFIT BEFORE TAX</b>               |        | <b>24,849</b>      | 282,408                                | 618,913                                |
| <b>TAX EXPENSE (BENEFIT)</b>           | 23     | <b>4,488</b>       | ( 3,273 )                              | 235,598                                |
| <b>NET PROFIT</b>                      |        | <b>20,361</b>      | 285,681                                | 383,315                                |
| <i>Balance carried forward</i>         |        | <b>P 20,361</b>    | P 285,681                              | P 383,315                              |

|                                                                                       | Notes | 2019            | 2018<br>(As Restated –<br>see Note 25) | 2017<br>(As Restated –<br>see Note 25) |
|---------------------------------------------------------------------------------------|-------|-----------------|----------------------------------------|----------------------------------------|
| <i>Balance brought forward</i>                                                        |       | <b>P 20,361</b> | P 285,681                              | P 383,315                              |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                              |       |                 |                                        |                                        |
| <b>Items that will not be reclassified to profit or loss</b>                          |       |                 |                                        |                                        |
| Share in other comprehensive income (loss) of associates                              | 11    | ( 87,666 )      | 32,516                                 | ( 4,997 )                              |
| Remeasurements of retirement benefit liability                                        | 22    | ( 16,899 )      | ( 12,098 )                             | ( 5,578 )                              |
| Tax benefit                                                                           | 23    | 5,070           | 3,629                                  | 1,674                                  |
|                                                                                       |       | ( 11,829 )      | ( 8,469 )                              | ( 3,904 )                              |
| Fair value gains on financial assets at fair value through other comprehensive income | 15    | -               | 2,925                                  | -                                      |
| Tax expense                                                                           | 23    | -               | ( 878 )                                | -                                      |
|                                                                                       |       | -               | 2,047                                  | -                                      |
|                                                                                       |       | ( 99,495 )      | 26,094                                 | ( 8,901 )                              |
| <b>Items that will be reclassified subsequently to profit or loss</b>                 |       |                 |                                        |                                        |
| Share in other comprehensive income (loss) of associates                              | 11    | 60,503          | ( 44,586 )                             | ( 23,244 )                             |
| Fair value gains on available-for-sale (AFS) financial assets                         |       |                 |                                        |                                        |
| Fair value gains on AFS securities                                                    |       | -               | -                                      | 900                                    |
| Tax expense                                                                           | 23    | -               | -                                      | ( 270 )                                |
|                                                                                       |       | -               | -                                      | 630                                    |
|                                                                                       |       | 60,503          | ( 44,586 )                             | 22,614                                 |
|                                                                                       |       | ( 38,992 )      | ( 18,492 )                             | ( 31,515 )                             |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>                                              |       | ( P 18,631 )    | P 267,189                              | P 351,800                              |
| Net profit attributable to:                                                           |       |                 |                                        |                                        |
| Equity holders of the Company                                                         |       | P 24,664        | P 291,455                              | P 389,020                              |
| Noncontrolling interest                                                               |       | ( 4,303 )       | ( 5,774 )                              | ( 5,705 )                              |
|                                                                                       |       | <b>P 20,361</b> | P 285,681                              | P 383,315                              |
| Total comprehensive income (loss) attributable to:                                    |       |                 |                                        |                                        |
| Equity holders of the Company                                                         |       | ( P 14,328 )    | P 272,963                              | P 357,505                              |
| Noncontrolling interest                                                               |       | ( 4,303 )       | ( 5,774 )                              | ( 5,705 )                              |
|                                                                                       |       | ( P 18,631 )    | P 267,189                              | P 351,800                              |
| <b>Earnings Per Share - Basic and Diluted</b>                                         | 26    | <b>P 0.04</b>   | P 0.45                                 | P 0.66                                 |

*See Notes to Consolidated Financial Statements.*

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
*(A Subsidiary of San Miguel Corporation)*  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
*(Amounts in Thousand Philippine Pesos)*

|                                                         |                                | Attributable to Owners of the Parent Company |                                            |                                                                |                                                    |                                                      |                                 |                                                 |                                                           |              |                                         |              |  |
|---------------------------------------------------------|--------------------------------|----------------------------------------------|--------------------------------------------|----------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------|---------------------------------|-------------------------------------------------|-----------------------------------------------------------|--------------|-----------------------------------------|--------------|--|
|                                                         | Capital Stock<br>(See Note 25) | Additional Paid-in Capital<br>(See Note 25)  | Treasury Shares - at Cost<br>(See Note 25) | Accumulated Fair Value Gains (Losses)<br>(See Notes 11 and 13) | Cumulative Translation Adjustment<br>(See Note 11) | Reserve for Retirement Plan<br>(See Notes 11 and 22) | Other Reserves<br>(See Note 25) | Appropriated Retained Earnings<br>(See Note 25) | Unappropriated Retained Earnings<br>(See Notes 11 and 23) | Total        | Noncontrolling Interest<br>(See Note 5) | Total Equity |  |
| Balance at January 1, 2019, as previously reported      | P 6,624,959                    | P 6,123,447                                  | ( P 9,515 )                                | ( P 93,022 )                                                   | P 1,492                                            | ( P 81,164 )                                         | ( P 280,515 )                   | P 4,500,000                                     | P 3,976,329                                               | P 20,762,011 | P 362,617                               | P 21,124,628 |  |
| Adjustments due to the adoption of PFRS 16 (see Note 2) | -                              | -                                            | -                                          | -                                                              | -                                                  | 2,800                                                | -                               | -                                               | 2,800                                                     | -            | -                                       | 2,800        |  |
| Prior period adjustments (see Note 25)                  | -                              | -                                            | -                                          | -                                                              | -                                                  | -                                                    | -                               | -                                               | ( 40,662 )                                                | ( 40,662 )   | 2,171                                   | ( 38,491 )   |  |
| Balance at January 1, 2019, as restated                 | 6,624,959                      | 6,123,447                                    | ( 9,515 )                                  | ( 93,022 )                                                     | 1,492                                              | ( 81,164 )                                           | ( 280,515 )                     | 4,500,000                                       | 3,938,467                                                 | 20,724,149   | 364,788                                 | 21,088,937   |  |
| Transactions with owners                                |                                |                                              |                                            |                                                                |                                                    |                                                      |                                 |                                                 |                                                           |              |                                         |              |  |
| Issuance of shares of stock                             | 575,000                        | 569,250                                      | -                                          | -                                                              | -                                                  | -                                                    | -                               | -                                               | -                                                         | 1,144,250    | -                                       | 1,144,250    |  |
| Total comprehensive income (loss) for the year          | -                              | -                                            | -                                          | 66,674                                                         | ( 4,119 )                                          | ( 101,547 )                                          | -                               | -                                               | 24,664                                                    | ( 14,328 )   | ( 4,303 )                               | ( 18,631 )   |  |
| Balance at December 31, 2019                            | P 7,199,959                    | P 6,692,697                                  | ( P 9,515 )                                | ( P 26,348 )                                                   | ( P 2,627 )                                        | ( P 182,711 )                                        | ( P 280,515 )                   | P 4,500,000                                     | P 3,963,131                                               | P 21,854,071 | P 360,485                               | P 22,214,556 |  |
| Balance at January 1, 2018, as previously reported      | P 5,999,959                    | P 5,504,697                                  | ( P 9,515 )                                | ( P 298,252 )                                                  | ( P 7,102 )                                        | ( P 105,211 )                                        | ( P 270,299 )                   | P 4,500,000                                     | P 4,016,287                                               | P 19,330,564 | P 360,574                               | P 19,691,138 |  |
| Adjustments due to the adoption of PFRS 15 in 2018      | -                              | -                                            | -                                          | -                                                              | -                                                  | -                                                    | -                               | -                                               | 69,602                                                    | 69,602       | 7,817                                   | 77,419       |  |
| Adjustments to share in profit of an associate          | -                              | -                                            | -                                          | 256,363                                                        | -                                                  | -                                                    | -                               | -                                               | ( 403,095 )                                               | ( 146,732 )  | -                                       | ( 146,732 )  |  |
| Prior period adjustments (see Note 25)                  | -                              | -                                            | -                                          | -                                                              | -                                                  | -                                                    | -                               | -                                               | ( 43,682 )                                                | 43,682       | 2,171                                   | ( 41,511 )   |  |
| Balance at January 1, 2018, as restated                 | 5,999,959                      | 5,504,697                                    | ( 9,515 )                                  | ( 41,889 )                                                     | ( 7,102 )                                          | ( 105,211 )                                          | ( 270,299 )                     | 4,500,000                                       | 3,639,112                                                 | 19,209,752   | 370,562                                 | 19,580,314   |  |
| Transactions with owners                                |                                |                                              |                                            |                                                                |                                                    |                                                      |                                 |                                                 |                                                           |              |                                         |              |  |
| Issuance of shares of stock                             | 625,000                        | 618,750                                      | -                                          | -                                                              | -                                                  | -                                                    | -                               | -                                               | -                                                         | 1,243,750    | -                                       | 1,243,750    |  |
| Acquisition of noncontrolling interest                  | -                              | -                                            | -                                          | -                                                              | -                                                  | -                                                    | ( 10,216 )                      | -                                               | -                                                         | ( 10,216 )   | -                                       | ( 10,216 )   |  |
|                                                         | 625,000                        | 618,750                                      | -                                          | -                                                              | -                                                  | -                                                    | ( 10,216 )                      | -                                               | -                                                         | 1,233,534    | -                                       | 1,233,534    |  |
| Total comprehensive income (loss) for the year          | -                              | -                                            | -                                          | ( 51,133 )                                                     | 8,594                                              | 24,047                                               | -                               | -                                               | 291,455                                                   | 272,963      | ( 5,774 )                               | 267,189      |  |
| Balance at December 31, 2018                            | P 6,624,959                    | P 6,123,447                                  | ( P 9,515 )                                | ( P 93,022 )                                                   | P 1,492                                            | ( P 81,164 )                                         | ( P 280,515 )                   | P 4,500,000                                     | P 3,930,567                                               | P 20,716,249 | P 364,788                               | P 21,081,037 |  |
| Balance at January 1, 2017, as previously reported      | P 5,720,109                    | P 5,226,246                                  | ( P 9,515 )                                | ( P 271,992 )                                                  | ( P 10,748 )                                       | ( P 96,310 )                                         | ( P 270,299 )                   | P 5,000,000                                     | P 3,123,454                                               | P 18,410,945 | P 366,279                               | P 18,777,224 |  |
| Prior period adjustments (see Note 25)                  | -                              | -                                            | -                                          | -                                                              | -                                                  | 39,869                                               | -                               | -                                               | ( 39,869 )                                                | -            | 2,171                                   | ( 37,698 )   |  |
| Balance at January 1, 2017, as restated                 | 5,720,109                      | 5,226,246                                    | ( 9,515 )                                  | ( 271,992 )                                                    | ( 10,748 )                                         | ( 96,310 )                                           | ( 270,299 )                     | 5,000,000                                       | 3,083,585                                                 | 18,371,076   | 368,450                                 | 18,739,526   |  |
| Transactions with owners                                |                                |                                              |                                            |                                                                |                                                    |                                                      |                                 |                                                 |                                                           |              |                                         |              |  |
| Issuance of shares of stock                             | 279,850                        | 278,451                                      | -                                          | -                                                              | -                                                  | -                                                    | -                               | -                                               | -                                                         | 558,301      | -                                       | 558,301      |  |
| Reversal of appropriations during the year              | -                              | -                                            | -                                          | -                                                              | -                                                  | -                                                    | ( 5,000,000 )                   | 5,000,000                                       | -                                                         | -            | -                                       | -            |  |
| Appropriations during the year                          | -                              | -                                            | -                                          | -                                                              | -                                                  | -                                                    | -                               | 4,500,000                                       | ( 4,500,000 )                                             | -            | -                                       | -            |  |
| Total comprehensive income (loss) for the year          | -                              | -                                            | -                                          | ( 26,200 )                                                     | 3,646                                              | ( 8,901 )                                            | -                               | -                                               | 389,020                                                   | 357,505      | ( 5,705 )                               | 351,800      |  |
| Balance at December 31, 2017                            | P 5,999,959                    | P 5,504,697                                  | ( P 9,515 )                                | ( P 298,252 )                                                  | ( P 7,102 )                                        | ( P 105,211 )                                        | ( P 270,299 )                   | P 4,500,000                                     | P 3,972,605                                               | P 19,286,882 | P 362,745                               | P 19,649,627 |  |

See Notes to Consolidated Financial Statements.



**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
*(A Subsidiary of San Miguel Corporation)*  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
*(Amounts in Thousand Philippine Pesos)*

|                                                                | Notes | 2019             | 2018<br>(As Restated –<br>see Note 25) | 2017<br>(As Restated –<br>see Note 25) |
|----------------------------------------------------------------|-------|------------------|----------------------------------------|----------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                    |       |                  |                                        |                                        |
| Profit before tax                                              |       | <b>P 24,849</b>  | P 282,408                              | P 618,913                              |
| Adjustments for:                                               |       |                  |                                        |                                        |
| Interest expense                                               | 21    | 601,586          | 421,945                                | 302,152                                |
| Share in profit of associates                                  | 11    | ( 318,288 )      | ( 58,469 )                             | ( 326,918 )                            |
| Depreciation and amortization                                  | 20    | 211,576          | 199,831                                | 193,092                                |
| Interest income                                                | 21    | ( 55,428 )       | ( 61,240 )                             | ( 45,768 )                             |
| Impairment loss on receivables                                 | 7     | 16,439           | 51,361                                 | 43,957                                 |
| Fair value losses - net                                        | 7, 8  | 11,740           | 1,657                                  | 18,939                                 |
| Loss on derecognition of right-of-use asset                    | 12    | 1,571            | -                                      | -                                      |
| Gain on sale of investment properties                          | 12    | ( 368 )          | -                                      | -                                      |
| Loss on retirement of property and equipment                   | 13    | 155              | -                                      | -                                      |
| Gain on sale of property and equipment                         | 13    | ( 66 )           | -                                      | -                                      |
| Gain on deconsolidation                                        | 5     | -                | ( 443,140 )                            | ( 46,790 )                             |
| Impairment loss on equity advances                             | 11    | -                | 3,136                                  | 76,316                                 |
| Reversal of impairment loss on receivables                     |       | -                | -                                      | ( 27,269 )                             |
| Operating profit before working capital changes                |       | <b>493,766</b>   | 397,489                                | 806,624                                |
| Decrease (increase) in receivables                             |       | 26,784           | 346,719                                | ( 478,453 )                            |
| Decrease in real estate projects                               |       | 5,105            | 56,722                                 | 379,603                                |
| Increase in raw land inventory                                 |       | ( 54,949 )       | ( 17,345 )                             | ( 79,120 )                             |
| Increase in other assets                                       |       | ( 131,936 )      | ( 409,153 )                            | ( 4,760 )                              |
| Decrease (increase) in deposits on land for future development |       | ( 389,207 )      | 157,629                                | ( 105,505 )                            |
| Increase (decrease) in trade and other payables                |       | 366,038          | ( 705,660 )                            | 415,968                                |
| Increase (decrease) in advance rentals and deposits            |       | 3,828            | ( 3,260 )                              | 13,733                                 |
| Increase (decrease) in customers' deposits                     |       | 41,785           | ( 4,247 )                              | ( 222,601 )                            |
| Decrease in retirement benefit liability                       |       | ( 19,406 )       | ( 24,147 )                             | ( 373 )                                |
| Cash generated from (used in) operations                       |       | <b>341,808</b>   | ( 205,253 )                            | 725,116                                |
| Interest received                                              |       | 42,241           | 26,201                                 | 10,262                                 |
| Cash paid for income taxes                                     |       | ( 46,402 )       | ( 67,859 )                             | ( 127,264 )                            |
| Net Cash From (Used in) Operating Activities                   |       | <b>337,647</b>   | ( 246,911 )                            | 608,114                                |
| Balance brought forward                                        |       | <b>P 337,647</b> | ( P 246,911 )                          | P 608,114                              |

|                                                                 | Notes  | 2019               | 2018<br>(As Restated –<br>see Note 25) | 2017<br>(As Restated –<br>see Note 25) |
|-----------------------------------------------------------------|--------|--------------------|----------------------------------------|----------------------------------------|
| <i>Balance carried forward</i>                                  |        | <b>P 337,647</b>   | ( P 246,911 )                          | <b>P 608,114</b>                       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |        |                    |                                        |                                        |
| Acquisitions of property and equipment                          | 13     | ( 1,275,297 )      | ( 717,054 )                            | ( 100,157 )                            |
| Additions to investment property                                | 12     | ( 871,983 )        | ( 1,931,725 )                          | ( 333,923 )                            |
| Interest received                                               |        | 13,187             | 35,039                                 | 35,505                                 |
| Additional equity advances                                      | 11     | ( 3,063 )          | ( 3,861 )                              | ( 16,052 )                             |
| Proceeds from sale of investment properties                     | 12     | 1,395              | -                                      | -                                      |
| Acquisition of intangible assets                                | 14     | ( 1,008 )          | ( 597 )                                | ( 1,604 )                              |
| Proceeds from disposal of property and equipment                | 13     | 66                 | 5,026                                  | -                                      |
| Dividends received                                              | 11     | -                  | 10,083                                 | 6,256                                  |
| Net Cash Used in Investing Activities                           |        | ( 2,136,703 )      | ( 2,603,089 )                          | ( 409,975 )                            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |        |                    |                                        |                                        |
| Net proceeds from borrowings                                    | 33     | 2,075,730          | 1,553,634                              | 207,481                                |
| Proceeds from issuance of shares of stock                       | 25     | 1,150,000          | 1,250,000                              | 559,700                                |
| Interest paid                                                   | 33     | ( 598,903 )        | ( 399,180 )                            | ( 269,115 )                            |
| Collection of lease receivables                                 | 18     | 14,269             | -                                      | -                                      |
| Repayment of lease liabilities                                  | 18, 33 | ( 10,217 )         | -                                      | -                                      |
| Share issuance costs paid                                       | 25     | ( 5,750 )          | ( 6,250 )                              | ( 1,399 )                              |
| Receipts (payments) of advances from related parties            |        | -                  | 3,433                                  | ( 24,228 )                             |
| Net Cash From Financing Activities                              |        | 2,625,129          | 2,401,637                              | 472,439                                |
| <b>NET INCREASE (DECREASE) IN<br/>CASH AND CASH EQUIVALENTS</b> |        | <b>826,073</b>     | ( 448,363 )                            | 670,578                                |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>       |        | <b>796,982</b>     | 1,245,345                              | 574,767                                |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR</b>             |        | <b>P 1,623,055</b> | <b>P 796,982</b>                       | <b>P 1,245,345</b>                     |

*Supplemental Information on Noncash Activities is disclosed in Note 32.*

*See Notes to Consolidated Financial Statements.*

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
**(A Subsidiary of San Miguel Corporation)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019, 2018 AND 2017**  
*(Amounts in Thousand Philippine Pesos, Except Per Share Data and  
Number of Shares)*

**1. CORPORATE INFORMATION**

San Miguel Properties, Inc. (SMPI or the Company) was incorporated in the Philippines on December 18, 1990 and is 99.74% owned by San Miguel Corporation (SMC or the Intermediate Parent Company). The Company is a public domestic company whose shares of stock were listed in the Philippine Stock Exchange (PSE) until May 6, 2013, when it voluntarily delisted from the PSE. SMC, on the other hand, is a publicly listed domestic company and, through its subsidiaries and associates, is presently engaged in different lines of business including, but not limited to, production, processing and marketing of beverage, food and packaging products, energy, mining, fuel and oil, infrastructure, and management and development of real estate properties. Top Frontier Investment Holdings, Inc. (TFHI), a publicly listed domestic company, is the ultimate parent company.

The Company was incorporated to acquire by purchase, lease, donation and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop and hold investments in real estate of all kinds, and to improve, manage or otherwise deal with or dispose of buildings, houses, apartments and other structure of whatever kind.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to hereafter as the Group). As of December 31, 2019 and 2018, the Company holds interests in the following significant subsidiaries and associates, which were all incorporated in the Philippines:

| Company Name                                             | Explanatory Notes | Percentage of Ownership |        |
|----------------------------------------------------------|-------------------|-------------------------|--------|
|                                                          |                   | 2019                    | 2018   |
| Subsidiaries*:                                           |                   |                         |        |
| Bright Ventures Realty, Inc. (Bright Ventures)           |                   | 100%                    | 100%   |
| Carnell Realty, Inc. (Carnell)                           |                   | 100%                    | 100%   |
| E-Fare Investment Holdings, Inc. (E-Fare)                |                   | 100%                    | 100%   |
| Excel Unified Land Resources Corporation (Excel Unified) |                   | 51.50%                  | 51.50% |
| La Belle Plume Realty, Inc. (La Belle)                   |                   | 100%                    | 100%   |
| Maison 17 Properties, Inc. (Maison)                      | (a)               | 100%                    | 100%   |
| Moonspring Development, Inc. (Moonspring)                |                   | 100%                    | 100%   |
| SMC Originals, Inc. (SMC Originals)                      |                   | 100%                    | 100%   |
| SMPI Makati Flagship Realty Corp. (SMPI Flagship)        | (a)               | 100%                    | 100%   |
| Sta. Cruz Resource Management, Inc. (Sta. Cruz)          |                   | 100%                    | 100%   |
| Associates:                                              |                   |                         |        |
| Bank of Commerce (BOC)                                   |                   | 39.93%                  | 39.93% |
| Northpine Land, Inc. (NLI)                               |                   | 20%                     | 20%    |

\* Other subsidiaries not included in the list pertain to subsidiaries that did not produce significant revenues in the current reporting period. All of these subsidiaries (except Integrated Geosolutions, Inc.) are wholly owned by SMPI.

Note –

(a) Maison is an indirect subsidiary of the Parent Company through SMPI Flagship.

As at December 31, 2019 and 2018, the Group's primary real estate projects are the following:

| Project                         | Location              |
|---------------------------------|-----------------------|
| Makati Diamond Residences (MDR) | Makati City           |
| Asian Leaf                      | General Trias, Cavite |
| Bel Aldea                       | General Trias, Cavite |
| Maravilla                       | General Trias, Cavite |
| Wedgewoods                      | Silang, Cavite        |
| Dover Hill                      | San Juan City         |
| One Dover View                  | Mandaluyong City      |
| Two Dover View                  | Mandaluyong City      |
| Emerald 88                      | Pasig City            |

The subsidiaries and associates of the Company as of December 31, 2019 and 2018 were also incorporated to engage in the development, sale and lease of real estate properties, except for the following:

| Name of Subsidiary or Associate | Primary Purpose                                                                                                                                                                       |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BOC                             | Commercial banking services                                                                                                                                                           |
| Silang Resources, Inc.          | Trading of goods, such as food and beverage, on wholesale and retail basis                                                                                                            |
| Sta. Cruz                       | Business support services                                                                                                                                                             |
| SMPI Flagship                   | Development, management and administration of condominiums, hotels, condominium hotels, serviced apartments, residential or buildings, and other horizontal and vertical developments |

The registered office of the Company and SMC, which is also their principal place of business, is located at the 3<sup>rd</sup> Floor, San Miguel Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City. The registered office of TFHI, which is also its principal place of business, is located at 5<sup>th</sup> Floor, ENZO Building, 399 Sen. Gil J. Puyat Avenue, Makati City.

The place of incorporation and the place of operations of the subsidiaries and associates are similar with that of the Company, except for the following subsidiaries and associates that have different registered offices:

| <u>Name of Subsidiary<br/>or Associate</u>                                                                                                | <u>Registered Address</u>                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| BOC                                                                                                                                       | San Miguel Properties Centre,<br>No.7 St. Francis Street, Mandaluyong City                  |
| Bricktree Properties, Inc.                                                                                                                | No. 38 Delgado St., San Antonio, San Antonio<br>Village, Pasig City                         |
| Caticlanscapes Realty<br>Development Inc.,<br>Malay-Nabas Realty<br>Development, Inc.,<br>Moonspring, Newsapes<br>Haven Development, Inc. | Brgy. Union, Nabas, Aklan                                                                   |
| E-Fare                                                                                                                                    | Suite 2404 Discovery Center, 25 ADB<br>Avenue, Ortigas Center, Pasig City                   |
| La Belle                                                                                                                                  | Sitio Mampusa, Brgy. Union, Nabas, Aklan                                                    |
| Maison                                                                                                                                    | Ground Floor P&L Building 116 Legaspi<br>Street, Legaspi Village, Makati City               |
| SMPI Flagship                                                                                                                             | 118 Legaspi St., Legaspi Village,<br>Makati City                                            |
| NLI                                                                                                                                       | 15 <sup>th</sup> Floor, The Taipan Place, F. Ortigas,<br>Jr. Rd, Ortigas Center, Pasig City |

The consolidated financial statements of the Group as of and for the year ended December 31, 2019 (including the comparative consolidated financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017, and corresponding figures as of January 1, 2018) were authorized for issue by the Company's Board of Directors (BOD) on March 10, 2020.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

## **2.1 Basis of Preparation of Consolidated Financial Statements**

### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

In applying the equity method on the Group's investment in BOC in 2018 and prior years, adjustments to BOC's audited financial statements were made to conform its accounting policies to that of the Group's accounting policies in accordance with PFRS (see Note 2.3).

### *(b) Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income, expenses and other comprehensive income or loss in a single consolidated statement of comprehensive income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

### *(c) Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values are stated in thousands except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Group's functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

## 2.2 Adoption of New and Amended PFRS

### (a) Effective in 2019 that are Relevant to the Group

The Group adopted for the first time the following PFRS, amendments, interpretations and annual improvements to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

|                                                                        |   |                                                                                                                |
|------------------------------------------------------------------------|---|----------------------------------------------------------------------------------------------------------------|
| PFRS 16                                                                | : | Leases                                                                                                         |
| PAS 19 (Amendments)                                                    | : | Employee Benefits – Plan Amendment, Curtailment or Settlement                                                  |
| PAS 28 (Amendments)                                                    | : | Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures             |
| PFRS 9 (Amendments)                                                    | : | Financial Instruments – Prepayment Features with Negative Compensation                                         |
| International Financial Reporting Interpretations Committee (IFRIC) 23 | : | Uncertainty over Income Tax Treatments                                                                         |
| Annual Improvements to PFRS (2015-2017 Cycle)                          |   |                                                                                                                |
| PAS 12 (Amendments)                                                    | : | Income Taxes – Tax Consequences of Dividends                                                                   |
| PAS 23 (Amendments)                                                    | : | Borrowing Costs – Eligibility for Capitalization                                                               |
| PFRS 3 and PFRS 11 (Amendments)                                        | : | Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation |

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

- (i) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Group has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the consolidated financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained Earnings for the current period. Accordingly, comparative information were not restated.

The new accounting policies of the Group as a lessee and a lessor are disclosed in Notes 2.18(a) and 2.18(b), respectively.

Discussed below are the relevant information arising from the Group's adoption of PFRS 16 and how the related accounts are measured and presented on the Group's consolidated financial statements as at January 1, 2019.

- a. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.
- b. The Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 8.86%.
- c. The Group elected to measure the right-of-use assets at its carrying amount as if the new standard has been applied since the commencement date of the lease, adjusted for any prepaid lease payments, but discounted using the lessee's incremental borrowing rate as at January 1, 2019.
- d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.
- e. For subleases classified as finance lease, the Group derecognized the right-of-use asset allocated to the said sublease and recognized finance lease receivable in its consolidated statement of financial position. The difference between the recognized finance lease receivable and derecognized right-of-use asset is recognized as part of Miscellaneous under Other Operating Expenses account in the 2019 consolidated statement of comprehensive income.
- f. The Group has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:
  - (i) reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets; and,



- (ii) use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the consolidated statement of financial position as at January 1, 2019:

|                          | Note | Carrying<br>Amount<br>(PAS 17)<br>December 31,<br>2018 | Remeasurement | Carrying<br>Amount<br>(PFRS 16)<br>January 1,<br>2019 |
|--------------------------|------|--------------------------------------------------------|---------------|-------------------------------------------------------|
| <i>Assets:</i>           |      |                                                        |               |                                                       |
| Receivables:             |      |                                                        |               |                                                       |
| Current                  | 7    | P 548,925                                              | P 7,152       | 556,077                                               |
| Noncurrent               | 7    | 635,449                                                | 72,924        | 708,373                                               |
| Investment properties    | 25   | 7,845,552                                              | 52,255        | 7,897,807                                             |
| Property and equipment   | 13   | 4,736,870                                              | 907           | 4,737,777                                             |
| <i>Liabilities:</i>      |      |                                                        |               |                                                       |
| Accounts payable         | 17   | 11,152                                                 | ( 11,152)     | -                                                     |
| Lease liabilities:       |      |                                                        |               |                                                       |
| Current                  | 18   | -                                                      | 8,794         | 8,794                                                 |
| Noncurrent               | 18   | -                                                      | 136,785       | 136,785                                               |
| Deferred tax liabilities | 23   | 63,369                                                 | ( 3,989)      | 59,380                                                |
| Impact on net assets     |      |                                                        | P 2,800       |                                                       |

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

|                                                            | Notes        |           |
|------------------------------------------------------------|--------------|-----------|
| Operating lease commitments,<br>December 31, 2018 (PAS 17) | 27.3         | P 206,917 |
| Discount using incremental<br>borrowing rate               | 2.2(a)(i)(b) | ( 61,338) |
| Lease liabilities, January 1, 2019<br>(PFRS 16)            |              | P 145,579 |

- (ii) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Group's consolidated financial statements.

- (iii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The application of these amendments had no significant impact on the Group's consolidated financial statements.
- (iv) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Group's consolidated financial statements.
- (v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. The application of this interpretation had no significant impact on the Group's consolidated financial statements.
- (vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:
  - PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.

- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments to clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

(b) *Effective Subsequent to 2019 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.
- (ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

### **2.3 Basis of Consolidation, Investments in Subsidiaries and Associates and Jointly Controlled Operations**

The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expense and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

Acquisition of interest in a business entity which does not constitute a business is accounted for as an acquisition of an asset or asset group. Under the asset purchase accounting, the costs of identifiable assets and liabilities are allocated to individual items based on relative fair values, goodwill or gain on bargain purchase is not recognized and transaction costs are capitalized.

The financial statements of subsidiaries and associates are prepared for the same reporting period as the Group using consistent accounting policies.

In 2018 and prior years, certain accounting policies applied by BOC in the preparation of its financial statements are not consistent with the accounting policies applied by the Group. In computing for the Group's share in net profit or loss and in other comprehensive income or loss of BOC, the Group made certain adjustments to the audited financial statements of BOC to be consistent with the Group's accounting policies (see Note 11.1).

The Group accounts for its investments in subsidiaries, associates, joint venture, and noncontrolling interests as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control.

The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.12).

(b) *Investment in Associates*

Associates are entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method in the consolidated financial statements.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the carrying amount of the Group's investment. Changes resulting from the profit or loss generated by the associates are credited or charged against the Share in Profit of Associates in the profit or loss section of the Group's consolidated statement of comprehensive income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.20).

Changes resulting from other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in the consolidated other comprehensive income of the Group. Any distributions received from the associate (e.g., dividends) are recognized as reduction in the carrying amount of investment in associate. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group recognizes its share on those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

In computing the Group's share in net profit or loss of an associate, unrealized gains or losses on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Where unrealized losses are eliminated, the underlying asset is also tested for impairment from a group perspective.

(c) *Transactions with Noncontrolling Interests (NCI)*

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in consolidated profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in consolidated other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in consolidated other comprehensive income are reclassified to consolidated profit or loss.

*(d) Interests in Jointly Controlled Operations*

For interests in jointly controlled operations, the Group recognizes in its consolidated financial statements its share of the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. No adjustment or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint venture are recognized in the separate financial statements of the venturers.

The Company holds interest in various subsidiaries and associates as presented in Notes 1 and 11.

**2.4 Business Combinations**

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition, except for lease liabilities which are measured based on the present value of the remaining lease payments as if the acquired lease were a new lease at acquisition date and right-of-use assets which are measured at an amount equal to the recognized lease liability, adjusted to reflect favorable or unfavorable lease terms compared with market terms. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.20). Goodwill on acquisitions of subsidiaries is presented under Other Noncurrent Assets account in the consolidated statement of financial position.

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to consolidated profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the consolidated profit or loss or consolidated other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in consolidated profit or loss or as a change to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## **2.5 Financial Assets**

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

### *(a) Classification, Measurement and Reclassification of Financial Assets*

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Group commits to purchase or sell the asset).

### *(i) Financial Assets at Amortized Cost*

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

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

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.



The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents and Receivables (except Advances to contractors) and Contract assets presented under Other Current Assets account.

Financial assets measured at amortized cost are included in current assets, except those with maturities greater than 12 months after the end of reporting period, which are classified as noncurrent assets.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(ii) *Financial Assets at Fair Value Through Other Comprehensive Income*

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Group can make an irrevocable election (on an instrument by instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as fair value through profit or loss. The Group has designated equity instruments as at FVOCI on initial recognition.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal cost. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in consolidated other comprehensive income, net of any effects arising from income taxes, and are reported as part of Accumulated Fair Value Losses account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Accumulated Fair Value Losses account is not reclassified to consolidated profit or loss but is reclassified directly to Retained Earnings account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to consolidated profit or loss.

Any dividends earned on holding equity instruments are recognized in the consolidated profit or loss as part of Miscellaneous Income (Charges) account under Other Income (Charges) section, when the Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and, clearly represent recovery of a part of the cost of investment.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of comprehensive income as part of Finance income under Other Income (Charges) account.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to fair value through profit or loss (FVTPL), if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost.

A change in the objective of the Group's business model will only take effect at the beginning of the next reporting period following the change in the business model.

*(b) Impairment of Financial Assets*

At the end of the reporting period, the Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectibility of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for Receivables (except Advances to contractors) and contract assets. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Group uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics and have been grouped based on the days past due (see Note 28.2).

The Group determines whether there has been a significant increase in credit risk for financial asset since initial recognition by comparing the risk of default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

The key elements used in the calculation of ECL are as follows:

- *Probability of Default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss Given Default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral or effect of any credit enhancement.
- *Exposure at Default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The Group recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

(c) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **2.6 Real Estate Projects**

The acquisition costs of properties and other costs and expenses incurred to develop the properties are classified as part of Construction-in-progress (CIP) under Real Estate Projects account when the development of the property starts. The related property development costs are then accumulated in this account. When the development of the property has been completed, the accumulated costs of the project are transferred as part of Subdivision houses and lots, which is also presented under Real Estate Projects account in the consolidated statement of financial position.

Cost of real estate sold includes acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of the property to the Group; and related property development costs are also capitalized by the Group. All costs relating to the real estate property sold are recognized as expense as the work to which they relate is performed.

Costs of real estate sold are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to completion and the estimated costs necessary to make the sale.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any probable loss from a real estate project is charged to operations during the period in which the loss is determined.

Repossessioned property arising from sales cancellation is recognized at fair value less repossession costs. The difference between the carrying amount of the receivable or contract asset to be derecognized and the cost of the repossessioned property is recognized as part of Miscellaneous income (charges) account under Other Income (Charges) section in the consolidated statement of comprehensive income.

## ***2.7 Raw Land Inventory***

Acquisition costs of raw land intended for sale or development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to Raw Land Inventory account in the consolidated statement of financial position. When the development of the property starts, the cost of related raw land inventory is then transferred to CIP under Real Estate Projects account in the consolidated statement of financial position (see Note 2.6).

Advance payments for raw land acquisitions intended for sale or development that are still in process of completing the transfer of title of the property to the Group are charged to Deposits on Land for Future Development account in the consolidated statement of financial position.

Costs of raw land inventory are assigned using specific identification of their individual costs. This inventory is carried at the lower of the acquisition cost of the land and net realizable value. Net realizable value for raw land inventory is the estimated selling price in the ordinary course of business, less the estimated costs to sell. Valuation allowance, if any, is provided when the net realizable value of the property is lower than its carrying amount.

## ***2.8 Inventories***

Inventories, presented as part of Other Current Assets account, are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. The cost of inventories includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of conversion and the estimated costs necessary to make the sale. Net realizable value of raw materials is the current replacement cost.

## ***2.9 Other Assets***

Other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized and classified as current assets in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as other noncurrent assets.

## **2.10 Investment Property**

Investment property is property held either to earn rental income or for capital appreciation or for both, which comprise mainly of land and buildings and related improvements. Buildings and land improvements are carried at cost, net of accumulated depreciation, amortization and any impairment loss. Land, on the other hand, is carried at cost less any impairment in value.

The cost of investment property comprises the acquisition cost or construction cost and other directly attributable costs for bringing the asset to working condition for its intended use. Expenditures for additions and major improvements are capitalized, while expenditures for repairs and maintenance are charged to expense when incurred.

Except for land, which is not depreciated, depreciation and amortization is computed using the straight-line method over the following estimated useful lives of the assets:

|                           |                |
|---------------------------|----------------|
| Building and improvements | 10 to 50 years |
| Land improvements         | 5 to 10 years  |

Capital projects-in-progress under Investment Property pertains to the accumulated costs of putting up assets, additions or improvements. Cost is recognized when materials purchased and services performed in relation to construction have been delivered or rendered. When the asset become available for use, the accumulated cost is transferred to the appropriate investment property account, and depreciation or amortization is recognized based on the estimated useful life of such asset.

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

Fully depreciated and amortized investment property is retained in the accounts until this is no longer in use and no further charge for depreciation and amortization is made in respect of this asset.

Transfers from other accounts (such as property and equipment or raw land inventory) are made to investment property when and only when there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party, while transfers from investment property are made when and only when there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property and Equipment account up to the date of change in use (see Note 2.11).

The carrying amount of investment property is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (see Note 2.20).

Policies on rental income and costs incurred from investment property, which are reported within Revenues and Cost of Rentals, respectively, are described in Note 2.18.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in the profit or loss section in the consolidated statement of comprehensive income in the period of retirement or disposal.

### ***2.11 Property and Equipment***

Property and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment losses. As no finite useful life for land can be determined, related carrying amount (which is cost less any impairment losses) is not depreciated.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of property and equipment are as follows:

|                                          |                |
|------------------------------------------|----------------|
| Building and improvements                | 10 to 50 years |
| Machineries and transportation equipment | 5 to 15 years  |
| Furniture, fixtures and other equipment  | 3 to 5 years   |

Depending on the circumstances, building improvements are depreciated based on its useful life or lease term, whichever is shorter.

Capital projects-in-progress under Property and Equipment account pertains to the accumulated costs of putting up assets, additions or improvements. This includes costs of construction, applicable borrowing costs (see Note 2.22) and other direct costs. When the asset become available for use, the accumulated cost is transferred to the appropriate property and equipment account, and depreciation is recognized based on the estimated useful life of such asset.

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and amortized property and equipment are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

An item of property and equipment, including the related accumulated depreciation and amortization and any impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in consolidated profit or loss in the year the item is derecognized.

## ***2.12 Intangible Assets***

Intangible assets, except goodwill, pertain to software licenses and land use rights, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Software licenses are amortized on a straight-line basis over the estimated useful lives (ranging from three to five years) as the lives of these intangible assets are considered finite. For land use rights, amortization commences once the development of the project to which the land use rights relate has started, over the estimated length of development of six years. In addition, intangible assets are subject to impairment testing as described in Note 2.20.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are recognized as expense in consolidated profit or loss as incurred.

Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets if, and only if, the Group can demonstrate all of the following recognition requirements:

- (i) technical feasibility of completing the prospective product for internal use or sale;
- (ii) the intangible asset will generate probable economic benefits through internal use or sale;
- (iii) intention and ability to complete, i.e., availability of sufficient technical, financial and other resources necessary for completion, and use or sell the asset; and,
- (iv) ability to measure reliably the expenditure attributable to the intangible asset during development.

Development costs not meeting these criteria for capitalization are expensed as incurred. Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs, if any.

The costs of internally generated software developments are recognized as intangible assets; they are subject to the same subsequent measurement method as externally acquired software licenses. Any capitalized internally developed software that is not yet complete is not amortized but is subject to impairment testing in Note 2.20. Amortization commences upon completion of the asset.

When these assets are retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment loss are removed from the accounts. Any resulting gain or loss on derecognition is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income.

### ***2.13 Financial Liabilities***

Financial liabilities, which include Loans and Borrowings, Trade and Other Payables (excluding provisions and tax-related liabilities), Due to Related Parties, Lease Liabilities and Rental deposits (presented as part of Advance Rentals and Deposits account), are measured at amortized cost using effective interest rate method. Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges, except capitalized borrowing costs, are recognized as expense in profit or loss as part of Finance costs under Other Income (Charges) account in the consolidated statement of comprehensive income.

Interest-bearing loans and borrowings are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to consolidated profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables, due to related parties and rental deposits are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group's BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liabilities for at least 12 months after the reporting period. Otherwise, these are presented as noncurrent liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligation is extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in consolidated profit or loss.

### ***2.14 Offsetting of Financial Instruments***

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.



### ***2.15 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.16 Contract Assets and Contract Liabilities***

Contract assets pertain to rights to consideration in exchange for goods or services that the Group has transferred to a customer that is conditioned on something other than passage of time. Under its contracts with customers, the Group will receive an unconditional right to payment for the total consideration upon the completion of the development of the property sold (see Note 2.17).

Any rights to consideration recognized by the Group as it develops the property are presented as Contract assets under Other Current Assets account in the consolidated statement of financial position. Contract assets are subsequently tested for impairment in the same manner as the Group assesses impairment of its financial assets.

Contract liabilities are the Group's obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Any consideration received by the Group in excess of the amount for which the Group is entitled is presented as Contract liabilities under Trade and Other Payables account in the consolidated statement of financial position. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

## **2.17 Revenue and Cost Recognition**

Revenue comprises revenue from sale of real properties, hotel services, sale of food and beverage and other services rendered.

To determine whether to recognize revenue, the Group follows a five-step process:

- (a) identifying the contract with a customer;
- (b) identifying the performance obligation;
- (c) determining the transaction price;
- (d) allocating the transaction price to the performance obligations; and,
- (e) recognizing revenue when/as performance obligations are satisfied.

The Group determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

- (i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- (ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
- (iii) the payment terms for the goods or services to be transferred or performed can be identified;
- (iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
- (v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- (i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- (iii) the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

The Group develops real properties such as subdivision house and lots. The Group often enters into contracts to sell real properties as they are being developed. The significant judgment used in determining the timing of satisfaction of the Group's performance obligation with respect to its contracts to sell real properties is disclosed in Note 3.1(b). Sales cancellations are accounted for on the year of forfeiture. Any gain or loss on cancellation is charged to consolidated profit or loss.

The following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of real estate* – For financial reporting purposes, revenues from real estate sales are recognized over time proportionate to the progress of the project development. Under this method, realization of gross profit is recognized by reference to the stage of development of the properties, i.e., revenue is recognized in the period in which the work is performed. This method faithfully depicts the transfer of goods or services because in a sale of real property, not all of the benefits are consumed by the customer until the complete satisfaction of the performance obligation. Revenue recognized from real estate sales is presented under Revenues account in the consolidated statement of comprehensive income.

Revenue, whether from completed or ongoing projects, is recognized when 10% of the total contract price has already been collected. If the transaction does not yet qualify for revenue recognition, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of revenue, payments received from buyers are presented as Customers' Deposits account under the Liabilities section of the consolidated statement of financial position.

For tax reporting purposes, revenue on sales and cost of real estate sold are recognized in full when more than 25% of the selling price is collected within the taxable year; otherwise, revenue and costs of real estate sold are recognized based on the percentage of collections over selling price.

- (b) *Sale of undeveloped land* – Revenues from transactions covering sale of undeveloped land or raw land inventory are recognized at a point in time. Under this method, the Group recognizes the revenue and cost from sale of undeveloped land in full when 10% or more of the contract price is received. Payments received from buyers which do not meet the revenue recognition criteria are presented as part of Customers' Deposits account under the Liabilities section of the consolidated statement of financial position.

For tax reporting purposes, revenue on sales and cost of undeveloped land are recognized in full when more than 25% of the selling price is collected within the taxable year; otherwise, revenue and cost of undeveloped land sold are recognized based on the percentage of collections over selling price.

- (c) *Room revenues* – Revenues are recognized over time during the occupancy of hotel guest and ends when the scheduled hotel room accommodation has lapsed (i.e., the related room services have been rendered).
- (d) *Sale of food and beverage* – Revenue is recognized as the services are provided over time with the customers.
- (e) *Service income* – Revenue is recognized over time based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.
- (f) *Others* – These revenues pertain to health and laundry services rendered by the Group. Revenue from these transactions are recognized over time when services are rendered and upon delivery to the customer.

Incremental costs of obtaining a contract to sell real property to customers are recognized as part of Other Current Assets account and is subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized. Other costs and expenses are recognized in profit or loss upon utilization of services or receipt of goods or at the date they are incurred. Finance costs are reported on an accrual basis, except any capitalized borrowing costs (see Note 2.22).

The costs of real estate sold include the acquisition cost of the land and development costs incurred for the project (see Notes 2.6 and 2.7).

Other costs and expenses are recognized in the consolidated statement of comprehensive income upon receipt of goods, utilization of goods or services or at the date such costs and expenses are incurred. All finance costs are reported in consolidated statement of comprehensive income on accrual basis, except capitalized borrowing costs (see Note 2.22).

## **2.18 Leases**

The Group accounts for its leases as follows:

### *(a) Group as Lessee*

#### *(i) Accounting for Leases in Accordance with PFRS 16 (2019)*

For any new contracts entered into on or after January 1, 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability in the consolidated statement of financial position. The right-of-use asset is measured as if the new standard had been applied since commencement date, but discounted using the lessee's incremental borrowing rate as at the date of initial application. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability and any lease payments made in advance of the lease commencement date.

Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.20). On the other hand, the Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

On the consolidated statement of financial position, right-of-use assets is presented as part of Property and Equipment and Investment Property account, depending on how the underlying assets would be presented if they were owned by the Group, while lease liabilities is presented as a separate line item under the Current and Noncurrent Liabilities sections in the consolidated statement of financial position.

*(ii) Accounting for Leases in Accordance with PAS 17 (2018)*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in consolidated profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific or identified asset or assets and the arrangement conveys a right to use the asset for a period of time in exchange for consideration.

(b) *Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Moreover, the Group derecognizes right-of-use asset pertaining to subleases classified as finance lease and recognizes a corresponding finance lease receivable in its consolidated statement of financial position. The difference between the derecognized right-of-use asset and recognized finance lease receivable is recognized in the consolidated profit or loss.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

For tax reporting purposes, revenue is recognized based on the rental revenue indicated on the lease contract. Advance rentals and rental deposits are immediately recognized as income and subjected to tax in the year received.

**2.19 Foreign Currency Transactions and Translation**

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency of the Group at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in consolidated profit or loss.

**2.20 Impairment of Nonfinancial Assets**

The Group's investments in associates and equity advances, goodwill (presented as part of Other Noncurrent Assets account), deposits on land for future development, investment property, property and equipment, intangible assets and other nonfinancial assets are subject to impairment testing. Except for goodwill which is tested annually for impairment, all other nonfinancial assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

## ***2.21 Employee Benefits***

The Group provides retirement benefits to all permanent employees under a defined benefit retirement plan and other employee benefits which are recognized as follows:

### ***(a) Defined Benefit Retirement Plan***

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit retirement plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds, using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are recognized in consolidated other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income in the consolidated statement of comprehensive income.

Past-service costs are recognized immediately in consolidated profit or loss in the period of a plan amendment and curtailment.

(b) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) *Bonus Incentives*

The Group recognizes a liability and an expense for bonuses and profit-sharing upon discretionary approval from management, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Short-term Benefits*

Short-term employee benefits include salaries and wages, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in consolidated profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Trade and Other Payables account in the consolidated statement of financial position.

## **2.22 Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset are being incurred, and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.



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

### ***2.23 Income Taxes***

Tax expense (benefit) recognized in consolidated statement of comprehensive income comprises the sum of deferred tax and current tax expense (benefit) not recognized in the consolidated other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in consolidated profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in consolidated profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in consolidated other comprehensive income or directly in consolidated equity are recognized in consolidated other comprehensive income or directly in consolidated equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

## ***2.24 Related Party Transactions and Relationships***

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded post-employment benefit plan for its employees.

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

## ***2.25 Equity***

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Accumulated fair value gains (losses) comprise net gains and losses arising from revaluation of financial assets at FVOCI measured at fair value.

Cumulative translation adjustment represents the Group's share in the translation adjustment recognized in the other comprehensive income of an associate.

Reserve for retirement plan pertains to current and prior year actuarial gains or losses of the defined benefit retirement plan.

Other reserves include the difference between the costs of acquiring an NCI over the carrying value of the additional Group share in the net assets of subsidiaries. These acquisitions and disposals of part of investment in subsidiaries did not result in gaining or losing of control by the Group.

Retained earnings, both restricted and available for dividend declaration, include all current and prior period results of operations as reported in the profit or loss section of the consolidated statement of comprehensive income.

NCI is the equity in subsidiaries that are not attributable, directly or indirectly, to the Group.

## **2.26 Earnings Per Share**

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the Group by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potential dilutive shares outstanding, hence, the diluted EPS is equal to the basic EPS.

## **2.27 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Management Committee (ManCom), its chief operating decision maker. The ManCom is responsible for allocating resources and assessing performance of the operating segments. In identifying its operating segments, management generally follows the Group's products and service lines, which represent the main products and services provided by the Group.

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The activities undertaken by the leasing segment includes the leasing of office and commercial spaces (collectively referred to as investment property) to the Intermediate Parent Company, related parties under common control and ownership and third parties. Real estate sales segment includes sale of subdivision house and/or lots and raw land inventory while management services segment includes the management of properties owned by the Intermediate Parent Company and other services rendered to related parties, such as project and property management and architectural services. Hotel operations segment, on the other hand, include revenues from room and other services, and sale of food and beverages to customers, in relation to their use of the Group's serviced apartment.

The measurement policies for segment reporting under PFRS 8, *Operating Segment*, are the same as those used in the preparation of the consolidated financial statements, except that, share in net profit of associates, finance costs, finance income, gain on sale of assets, tax benefit or expense and miscellaneous income are not included in arriving at the operating profit of the operating segment. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior years in the measurement methods used to determine reported segment profit or loss.

Financial information on operating segments is presented in Note 4.

## **2.28 Events After End of the Reporting Period**

Any post year-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately vary from these estimates.

#### *3.1 Critical Management Judgments in Applying Accounting Policies*

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

##### *(a) Determination of Lease Term of Contracts with Renewal and Termination Options (2019)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal. Renewal options and/or periods after termination options are only included in the lease term if it is enforceable and are reasonably certain to be extended or not terminated.

For leases of land and building, the factors that are normally the most relevant are (a) if there are significant penalties should the Group pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The renewal option for the lease of land and building was not included as part of the lease term due to the provisions in its contract that requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

##### *(b) Determination of Timing of Satisfaction of Performance Obligations*

The Group exercises critical judgment in determining whether each performance obligation to develop properties promised in its contracts with customers is satisfied over time or at a point in time. In making this judgment, the Group considers the following:

- any asset created or enhanced as the Group performs;
- the ability of the customer to control such asset as it is being created or enhanced;
- the timing of receipt and consumption of benefits by the customer; and,
- the Group's enforceable right for payment for performance completed to date.

In determining the appropriate method to use in recognizing the Group's revenues, management determines that revenues from sale of subdivision house and lots are recognized over time since it does not have an alternative use of the specific property sold as it is precluded by its contract from redirecting the use of the property for a different purpose. Further, the Group has rights over payment for development completed to date as the Group can choose to complete the development and enforce its rights to full payment under its contracts even if the customer defaults on amortization payments. Revenue from sale of undeveloped land is recognized at a point in time upon delivery to and receipt of title of the property by customer.

Revenue from hotel operations, management fees and other services, are recognized over time when the Group transfers control of the services based on the actual services provided as a proportion of the total services to be provided which demonstrates that the customers simultaneously receive and consume the benefits of the service.

Sale of food and beverage is recognized over time as the services are being rendered to the customers.

(c) *Revenue Recognition*

The Group uses judgment in evaluating the probability of collection of transaction price on real estate sales as a criterion for revenue recognition. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

(d) *Determination of ECL on Receivables and Contract Assets*

The Group uses credit loss rate approach to calculate ECL for contract receivables and contract assets. The provision rates are based on historical credit loss with forward-looking information (i.e., forecast of economic condition). Management determined that there is no required ECL to be recognized on the Group's contract receivables and contract assets since the legal title related to the land and/or house and lot unit sold will only be transferred once the contract receivable has been paid in full. Therefore, there is no expected loss given default as the recoverable amount from subsequent resale of the real estate is sufficient to cover the unpaid outstanding receivables.

Also, the Group uses a provision matrix to calculate ECL for accounts receivables, due from current and former related parties, rental receivables and finance lease receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

Details about the ECL on the Group's receivables and contract assets are disclosed in Note 28.2.

(e) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying value of the Group's financial assets at FVOCI and the amounts of fair value changes recognized is disclosed in Note 15.

(f) *Determination of Departmental Cost Allocation*

Relevant to its hotel operations, the Group uses estimates and judgments in properly allocating the fixed charges and undistributed expenses between the cost of room services, cost of food and beverages and other operating expenses. The Group, after assessing its hotel operations as labor intensive, allocates a bigger percentage of its expense to direct cost. However, the amount of costs charged to other departments would differ if the Group utilized a different allocation base. Changes in allocated cost would affect the cost reported for each department.

(g) *Distinction Between Investment Property and Owner-occupied Property*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the marketing or administrative functions. Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(h) *Distinction Between Raw Land Inventory and Investment Property*

The Group's management identifies the proper classification of parcels of land acquired as either raw land inventory or investment property at the time of acquisition following the approved plan of the Group and the subsidiaries' respective BODs and at the end of each reporting period. A property is classified as raw land inventory when management holds the property for development into a real estate project, while it is classified as investment property when management holds the property to earn rentals or for capital appreciation or for both. Parcels of land identified as Raw Land Inventory are disclosed in Note 9 while those identified as Investment Property are presented in Note 12.

(i) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements as either lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

Management has assessed that all of its lease agreements in 2018 are operating lease arrangements.

In 2019, upon adoption of PFRS 16, distinction between operating leases and finance leases is applicable only to lease contracts as a lessor. All leases entered into as a lessee, except for those qualified under the optional exemptions as provided by the standard, are required to be recognized on-balance sheet. Leases entered into by the Group as a lessor are determined to be operating leases, except for leases to certain lessees that qualified as finance lease under sublease agreements [see Note 2.18(b)].

(j) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recording of provisions and contingencies are discussed in Note 2.15 and disclosures on relevant provisions and contingencies are presented in Note 27.

**3.2 Key Sources of Estimation Uncertainty**

Discussed below and in the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Revenue Recognition for Performance Obligations Satisfied Over Time*

In determining the amount of revenue to be recognized for performance obligations satisfied over time, the Group measures progress on the basis of actual costs incurred relative to the total expected costs to complete such performance obligation. Specifically, the Group estimates the total development costs with reference to the project development plan and any agreement with customers. Management regularly monitors its estimates and apply changes as necessary. A significant change in estimated costs would result in a significant change in the amount of revenue recognized in the year of change.

(c) *Determination of Percentage of Completion*

The Group uses the percentage of completion method in accounting for its real estate revenues. The use of the percentage of completion method requires the Group to estimate the stage of completion based on surveys done by the Group's engineers and total costs to be incurred on a per unit basis. If the proportion of the percentage of completed projects or the total estimated costs per project differs from management's estimates, the amount of profit or loss would have changed.

In 2019 and 2018, most of the Group's projects are already completed or are near completion.

(d) *Determination of the Amount of Costs Incurred to Obtain or Fulfill a Contract with a Customer*

In determining the amount of costs to obtain a contract that should not be capitalized, the Group identifies those costs which would not have been incurred if the contract had not been obtained.

For the costs incurred in fulfilling a contract, the Group recognizes an asset only if those costs related directly to a contract or to an anticipated contract can be specifically identified; those costs generate or enhance the Group's resources that will be used in satisfying performance obligation in the future; and the Group expects those costs to be recovered.

(e) *Determination of Net Realizable Value of Real Estate Projects and Raw Land Inventory*

In determining the net realizable value of real estate projects and raw land inventory, management takes into account the most reliable evidence such as recent sale of adjacent properties and appraisal of the asset available at the time the estimate is made. Changes in the sources of estimation may cause significant adjustments to the Group's assets within the next reporting period.

As indicated in Notes 8 and 9, management assessed that the respective net realizable values of the Group's real estate projects and raw land inventory, respectively, are higher than their respective costs.

(f) *Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. The Group's inventories, which include perishable goods and supplies inventory, are affected by certain factors, which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories as presented in Note 15 is affected by price changes in different market segments of the food industry.

Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next reporting period.



(g) *Fair Value Measurement of Raw Land Inventory and Investment Property*

Raw land inventory is measured at the lower of cost and net realizable value, while the investment property is measured using the cost model. The fair value of raw land inventory and investment property held for capital appreciation or to earn rentals are disclosed in the consolidated financial statements is determined by the Group based on the appraisal reports of professional and independent appraisers, existing bid or offer prices in the market and recent sale of adjacent properties. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property, quantity of comparable properties in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets.

The fair value of the Group's raw land inventory and investment property as of December 31, 2019 and 2018 is disclosed in Notes 9 and 12, respectively.

(h) *Estimation of Useful Lives of Investment Property, Property and Equipment and Intangible Assets*

The Group estimates the useful lives of investment property, property and equipment, and intangible assets, except goodwill, based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets 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. Based on management's assessment as of December 31, 2019 and 2018, there is no change in the estimated useful lives of those assets during those years.

Analyses of the carrying amounts of investment property, property and equipment and intangible assets are presented in Notes 12, 13, and 14, respectively. Actual results, however, may vary due to changes in factors mentioned above.

(i) *Valuation of Financial Assets at FVOCI*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. The fair value measurements were determined using quoted market price of equity securities as of the end of the reporting period. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets would affect consolidated equity.

Fair value gains and losses recognized on financial assets at FVOCI are presented under Fair value Gains on Financial Assets at FVOCI account under Other Comprehensive Income (Loss) section in the consolidated statements of comprehensive income (see Note 15). No fair value gains or losses on financial assets at FVOCI have been recognized in 2019 and 2017, as there were no material changes in their fair values during those years.

(j) *Determination of Realizable Amount of Deferred Tax Assets*

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

Management assessed that the deferred tax assets as of December 31, 2019 and 2018 will be fully utilized within the prescribed periods, except for the related benefits of net operating loss carry-over (NOLCO), minimum corporate income tax (MCIT) and other temporary differences of certain subsidiaries, as it is expecting that the Group will generate sufficient taxable profits in the future against which the assets can be applied (see Note 23).

(k) *Impairment of Nonfinancial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.20). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Intangible assets with an indefinite useful life, such as goodwill, are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

No impairment losses were necessary to be recognized on deposits on land for future development, investment property, property and equipment, intangible assets, goodwill, investments in associates and other nonfinancial assets in 2019, 2018 and 2017, based on management's assessment.

However, certain advances to contractors and equity advances were assessed by management as no longer recoverable; hence, were provided with adequate allowance for impairment as of the end of the reporting periods (see Notes 7 and 11.2).

(l) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions, as described in Note 22.2, includes, among others, discount rates, salary increase rate and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 22.2.

(m) *Assessment of the Acquisition as Business Combinations and Accounting for Transactions under Acquisition Method*

The Group assesses whether the acquisition of an entity is a business combination or merely an asset acquisition. The Group accounts for the transaction as business combination if it includes the existing business and contracts of the acquired entities.

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their acquisition date fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment.

#### 4. SEGMENT INFORMATION

As described in Note 2.27, management currently has four operating segments namely: leasing, sale of real estate, management services and hotel operations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

##### 4.1 Analysis of Segment Information

Segment information can be analyzed below and in the succeeding page for the years ended December 31, 2019, 2018 and 2017.

|                                          | Leasing             | Sale of Real Estate | Management Services | Hotel Operations   | Eliminations         | Total               |
|------------------------------------------|---------------------|---------------------|---------------------|--------------------|----------------------|---------------------|
| <b>2019</b>                              |                     |                     |                     |                    |                      |                     |
| Segment revenues                         | P 421,856           | P 540,985           | P 119,555           | P 968,399          | (P 107,885)          | P 1,942,910         |
| Cost of real estate sold                 | -                   | ( 237,085)          | -                   | -                  | -                    | ( 237,085)          |
| Cost of rentals                          | ( 65,426)           | -                   | -                   | -                  | -                    | ( 65,426)           |
| Cost of room services                    | -                   | -                   | -                   | ( 395,968)         | 5,013                | ( 390,955)          |
| Cost of food and beverage sold           | -                   | -                   | -                   | ( 186,971)         | -                    | ( 186,971)          |
| Other operating expenses                 | ( 275,360)          | ( 358,161)          | ( 79,152)           | ( 123,000)         | 90,806               | ( 744,867)          |
| Segment Operating Profit (Loss)          | <u>P 81,070</u>     | <u>(P 54,261)</u>   | <u>P 40,403</u>     | <u>P 262,460</u>   | <u>(P 12,066)</u>    | <u>P 317,606</u>    |
| Total Segment Assets                     | <u>P 9,939,539</u>  | <u>P 18,466,623</u> | <u>P 617,263</u>    | <u>P 386,665</u>   | <u>(P 3,758,786)</u> | <u>P 25,651,304</u> |
| Total Segment Liabilities                | <u>P 2,598,272</u>  | <u>P 10,244,949</u> | <u>P -</u>          | <u>P 2,766,897</u> | <u>(P 1,210,676)</u> | <u>P 14,399,442</u> |
| <b>2018, as restated (see Note 25.5)</b> |                     |                     |                     |                    |                      |                     |
| Segment revenues                         | P 379,645           | P 654,676           | P 108,059           | P 886,115          | (P 130,883)          | P 1,897,612         |
| Cost of real estate sold                 | -                   | ( 427,279)          | -                   | -                  | 10,542               | ( 416,737)          |
| Cost of rentals                          | ( 70,838)           | -                   | -                   | -                  | -                    | ( 70,838)           |
| Cost of room services                    | -                   | -                   | -                   | ( 385,149)         | 15,707               | ( 369,442)          |
| Cost of food and beverage sold           | -                   | -                   | -                   | ( 167,496)         | -                    | ( 167,496)          |
| Other operating expenses                 | ( 219,635)          | ( 378,748)          | ( 62,515)           | ( 126,837)         | 88,291               | ( 699,444)          |
| Segment Operating Profit (Loss)          | <u>P 89,172</u>     | <u>(P 151,351)</u>  | <u>P 45,544</u>     | <u>P 206,633</u>   | <u>(P 16,343)</u>    | <u>P 173,655</u>    |
| Total Segment Assets                     | <u>P 10,515,158</u> | <u>P 11,477,034</u> | <u>P 104,816</u>    | <u>P 4,006,558</u> | <u>(P 3,906,241)</u> | <u>P 22,197,325</u> |
| Total Segment Liabilities                | <u>P 1,357,075</u>  | <u>P 7,966,846</u>  | <u>P -</u>          | <u>P 2,975,706</u> | <u>(P 513,816)</u>   | <u>P 11,785,811</u> |

|                                          | Leasing            | Sale of Real Estate | Management Services | Hotel Operations   | Eliminations         | Total               |
|------------------------------------------|--------------------|---------------------|---------------------|--------------------|----------------------|---------------------|
| <u>2017, as restated (see Note 25.5)</u> |                    |                     |                     |                    |                      |                     |
| Segment revenues                         | P 365,330          | P 1,285,675         | P 60,041            | P 748,586          | (P 65,957)           | P 2,393,675         |
| Cost of real estate sold                 | -                  | ( 650,709)          | -                   | -                  | (                    | ( 650,709)          |
| Cost of rentals                          | ( 77,693)          | -                   | -                   | -                  | (                    | ( 77,693)           |
| Cost of room services                    | -                  | -                   | -                   | ( 337,318)         | 15,707               | ( 321,611)          |
| Cost of food and beverage sold           | -                  | -                   | -                   | ( 186,902)         | -                    | ( 186,902)          |
| Other operating expenses                 | ( 112,674)         | ( 396,526)          | ( 18,518)           | ( 109,056)         | 49,550               | ( 587,224)          |
| Segment Operating Profit (Loss)          | <u>P 174,963</u>   | <u>P 238,440</u>    | <u>P 41,523</u>     | <u>P 115,310</u>   | <u>(P 700)</u>       | <u>P 569,536</u>    |
| Total Segment Assets                     | <u>P 7,158,571</u> | <u>P 10,828,729</u> | <u>P 58,240</u>     | <u>P 4,214,945</u> | <u>(P 2,382,411)</u> | <u>P 19,878,074</u> |
| Total Segment Liabilities                | <u>P 237,824</u>   | <u>P 9,079,525</u>  | <u>P -</u>          | <u>P 3,226,916</u> | <u>(P 1,582,726)</u> | <u>P 10,961,539</u> |

Currently, the Group's operations are concentrated in few locations which are in close proximity with each other; hence, it has no geographical segment. The Group, however, continues to acquire properties in different regions of the country, as potential locations for its real estate projects, investment properties or hotels and serviced apartments.

In 2019 and 2017, a related party under common ownership bought parcels of raw land inventory for a total consideration of P207,709 in 2019 and P339,825 in 2017. The revenue earned from this transaction accounts for 11% and 14% of the total revenues reported in the 2019 and 2017 consolidated statements of comprehensive income. There was no similar transaction made in 2018.

Segment assets include all operating assets used by a segment and consist principally of operating cash, real estate projects, raw land inventory, investment property, property and equipment and deposits on land for future development. Excluded from segment assets are deferred tax assets, equity advances and investments in associates, goodwill and other assets which are considered corporate assets and are not allocated to any segment's assets. Segment liabilities include all operating liabilities incurred by management in each particular segment. Excluded from segment liabilities are due to related parties, retirement benefit liability, income tax payable and deferred tax liabilities.

## 4.2 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

|                                               | 2019                       | 2018<br>(As Restated –<br>see Note 25.5) | 2017<br>(As Restated –<br>see Note 25.5) |
|-----------------------------------------------|----------------------------|------------------------------------------|------------------------------------------|
| Total segment assets                          | <b>P 25,651,304</b>        | P 22,197,325                             | P 20,007,166                             |
| Equity advances and investments in associates | <b>10,878,542</b>          | 10,584,355                               | 10,553,119                               |
| Receivables – net                             | <b>80,793</b>              | 134,641                                  | 104,353                                  |
| Deferred tax assets                           | <b>85,385</b>              | 28,371                                   | 11,417                                   |
| Goodwill                                      | <b>27,462</b>              | 27,462                                   | 27,462                                   |
| Other assets                                  | <b>13,610</b>              | 13,610                                   | 10,686                                   |
| Group Total Assets                            | <b><u>P 36,737,096</u></b> | <u>P 32,985,764</u>                      | <u>P 30,714,203</u>                      |
|                                               |                            | 2018<br>(As Restated –<br>see Note 25.5) | 2017<br>(As Restated –<br>see Note 25.5) |
| Total segment liabilities                     | <b>P 14,399,442</b>        | P 11,785,811                             | P 10,961,539                             |
| Due to related parties                        | <b>33,357</b>              | 33,357                                   | 29,924                                   |
| Deferred tax liabilities                      | <b>69,380</b>              | 63,369                                   | 108,462                                  |
| Retirement benefit liability                  | <b>19,532</b>              | 21,393                                   | 32,394                                   |
| Income tax payable                            | <b>829</b>                 | 797                                      | 1,570                                    |
| Group Total Liabilities                       | <b><u>P 14,522,540</u></b> | <u>P 11,904,727</u>                      | <u>P 11,133,889</u>                      |

The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

## 5. INTEREST IN SUBSIDIARIES

### 5.1 *Subsidiary with Material NCI*

The following shows the subsidiaries of the Group with material NCI:

| Name                    | Proportion of<br>Ownership Interest<br>and Voting Rights<br>Held by NCI |        | Profit (Loss)<br>Allocated to NCI |           | Accumulated<br>NCI |           |
|-------------------------|-------------------------------------------------------------------------|--------|-----------------------------------|-----------|--------------------|-----------|
|                         | 2019                                                                    | 2018   | 2019                              | 2018      | 2019               | 2018      |
|                         |                                                                         |        |                                   |           |                    |           |
| Geosolutions –          |                                                                         |        |                                   |           |                    |           |
| Individual stockholders | 31.70%                                                                  | 31.70% | (P 4,127)                         | (P 4,088) | P 180,133          | P 184,260 |
| Excel Unified:          |                                                                         |        |                                   |           |                    |           |
| Equitable PCI Bank      |                                                                         |        |                                   |           |                    |           |
| Trust Fund              | 14.50%                                                                  | 14.50% | 12 (                              | 449)      | 48,934             | 48,921    |
| Far East Bank and       |                                                                         |        |                                   |           |                    |           |
| Trust Fund Company      | 7.50%                                                                   | 7.50%  | 6 (                               | 232)      | 25,310             | 25,304    |
| Individual stockholders | 26.50%                                                                  | 26.50% | 21 (                              | 821)      | 89,428             | 89,407    |

The summarized financial information of Excel Unified and Geosolutions, before intragroup eliminations, is shown below.

|                                                                           | 2019               | 2018               |
|---------------------------------------------------------------------------|--------------------|--------------------|
| Current assets                                                            | P 1,011,998        | P 1,011,748        |
| Noncurrent assets                                                         | <u>6,310</u>       | <u>9,990</u>       |
| Total assets                                                              | <u>P 1,018,308</u> | <u>P 1,021,738</u> |
| Current liabilities                                                       | P 251,480          | P 238,815          |
| Noncurrent liabilities                                                    | <u>8,578</u>       | <u>11,733</u>      |
| Total liabilities                                                         | <u>P 260,058</u>   | <u>P 250,548</u>   |
| Equity attributable to owners of the Group                                | <u>P 486,447</u>   | <u>P 495,298</u>   |
| NCI                                                                       | <u>P 271,803</u>   | <u>P 275,892</u>   |
| Net sales                                                                 | P 206              | P 326              |
| Total comprehensive loss for the year attributable to owners of the Group | (P 8,851)          | (P 5,529)          |
| Total comprehensive loss for the year attributable to NCI                 | ( <u>4,088</u> )   | ( <u>5,590</u> )   |
| Total comprehensive loss for the year                                     | <u>(P 12,939)</u>  | <u>(P 11,119)</u>  |

The NCI of Excel Unified and Geosolutions did not have any cash inflow or outflow over the years presented.

## 5.2 Loss of Control over Subsidiaries

In 2018, the Group disposed its investments over Legacy Homes, Inc. (Legacy), thereby losing control. The aggregate carrying amount of net assets of the entities at the date of disposal is as follows:

|                                      |   |                  |
|--------------------------------------|---|------------------|
| Current assets (excluding cash)      | P | 40,647           |
| Non-current assets                   |   | 702,593          |
| Current liabilities                  | ( | 134,427)         |
| Share in net profit before disposal  | ( | 21,564)          |
| Total net assets                     |   | 587,249          |
| Total consideration received in cash |   | <u>1,030,389</u> |
| Gain on deconsolidation              | P | <u>443,140</u>   |

Similarly, in 2017, the Group disposed its investments over El Vertice Realty Corp. (El Vertice) and Estima Alta Realty Corporation (Estima), thereby losing control. The aggregate carrying amount of net assets of the entities at the date of disposal is as follows:

|                                      |   |                |
|--------------------------------------|---|----------------|
| Current assets (excluding cash)      | P | 4,512          |
| Non-current assets                   |   | 687,901        |
| Current liabilities                  | ( | 553,015)       |
| Total net assets                     |   | 139,398        |
| Total consideration received in cash |   | <u>186,188</u> |
| Gain on deconsolidation              | P | <u>46,790</u>  |

Gain on deconsolidation is presented under Other Income (Charges) account in the 2018 and 2017 consolidated statements of comprehensive income. Total consideration for the sale of Legacy, and Estima and El Vertice were fully collected in 2018 and 2017, respectively. There was no similar transaction in 2019.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31 are as follows:

|                           | <u>2019</u>        | <u>2018</u>      |
|---------------------------|--------------------|------------------|
| Cash on hand and in banks | P 588,561          | P 483,927        |
| Short-term placements     | <u>1,034,494</u>   | <u>313,055</u>   |
|                           | <u>P 1,623,055</u> | <u>P 796,982</u> |

Cash in banks are unrestricted and readily available for use in the operations of the Group. These generally earn interest based on daily bank deposit rates (see Note 21.2).

The Group's short-term placements are made for varying periods of up to two months depending on the immediate cash requirements of the Group and earn effective annual interest ranging from 1.50% to 5.38% in 2019, 1.63% to 5.25% in 2018, and 2.13% to 3.00% in 2017 (see Note 21.2).

## 7. RECEIVABLES

This account is composed of the following:

|                                             | <u>Notes</u> | <u>2019</u>        | <u>2018</u> |
|---------------------------------------------|--------------|--------------------|-------------|
| Current:                                    |              |                    |             |
| Contract receivables                        | 7.1, 24      | <b>P 337,667</b>   | P 340,660   |
| Rental receivables                          | 24           | <b>57,427</b>      | 46,947      |
| Accounts receivables                        | 24           | -                  | 16,469      |
| Advances to contractors                     |              | <b>107,434</b>     | 99,243      |
| Due from current and former related parties | 24           | <b>33,662</b>      | 33,144      |
| Finance lease receivables                   | 18           | <b>7,997</b>       | -           |
| Other receivables                           | 7.2          | <b>147,363</b>     | 147,548     |
|                                             |              | <b>691,550</b>     | 684,011     |
| Allowance for impairment                    |              | <b>( 151,525 )</b> | ( 135,086 ) |
|                                             |              | <b>540,025</b>     | 548,925     |
| Noncurrent:                                 |              |                    |             |
| Contract receivables                        | 24           | <b>47,617</b>      | 73,405      |
| Finance lease receivables                   | 18           | <b>69,269</b>      | -           |
| Advances to contractors                     |              | <b>539,910</b>     | 562,044     |
|                                             |              | <b>656,796</b>     | 635,449     |
|                                             |              | <b>P 1,196,821</b> | P 1,184,374 |

All of the Group's receivables have been assessed for impairment using ECL methodology. In 2019, 2018 and 2017, certain receivables were found to be impaired and allowance for impairment has been recognized accordingly. The impaired receivables are mostly due from various third parties with past due accounts. The related loss amounted to P16,439, P51,361 and P43,957, respectively, and is presented under Other Operating Expenses section in the consolidated statements of comprehensive income.

A reconciliation of the allowance for impairment at the beginning and end of 2019 and 2018 is shown below.

|                              | <u>Note</u> | <u>2019</u>      | <u>2018</u> |
|------------------------------|-------------|------------------|-------------|
| Balance at beginning of year |             | <b>P 135,086</b> | P 87,975    |
| Impairment losses            | 20          | <b>16,439</b>    | 51,361      |
| Write-offs                   |             | -                | 4,250       |
| Balance at end of year       |             | <b>P 151,525</b> | P 135,086   |

### **7.1 Contract Receivables**

Contract receivables generally arise from sale of real estate projects and certain raw land inventories of the Group.

The contract receivables of the Group are collectible over a maximum period of ten years and are classified as either interest-bearing, the interest rate of which ranges from 9.0% to 16.0% per annum, or noninterest-bearing, which are measured at amortized cost using the discount rate ranging from 7.0% to 11.5% based on the interest charged by certain financial institutions to retail borrowers.

The fair value of sales on noninterest-bearing contracts are determined by calculating the present value of the cash inflows anticipated to be received until the end of the contract term using the effective interest rate. This resulted in the recognition of fair value losses, charged to Real Estate Sales account for the portion pertaining to contract price, of P19,500, P16,931 and P18,939 in 2019, 2018 and 2017, respectively.

Interest income from unwinding the fair value losses on sales on noninterest-bearing contract receivables are presented as part of Interest income under Finance Income account in the consolidated statements of comprehensive income (see Note 21.2).

The corresponding titles to the units sold under this arrangement are transferred to the buyers only upon full payment of the contract price. Management believes that these receivables are fully recoverable through collection of the accounts or repossession of the properties considering that the title has not yet been transferred to the buyers.

### **7.2 Other Receivables**

Other receivables represent receivables from various individuals and companies arising from transactions related to the sale and lease of properties such as penalties and interest, claims from the homeowners' associations of their real estate projects, and other expenses paid by the Group on behalf of the said associations.

## **8. REAL ESTATE PROJECTS**

This account, which are all stated at cost, consists of:

|                             | <u>2019</u>               | 2018<br>(As Restated –<br>see Note 25.5) |
|-----------------------------|---------------------------|------------------------------------------|
| Subdivision houses and lots | <b>P 1,052,563</b>        | P 1,188,642                              |
| CIP                         | <u><b>992,149</b></u>     | <u>795,439</u>                           |
|                             | <u><b>P 2,044,712</b></u> | <u>P 1,984,081</u>                       |



The movements of this account are as follows:

|                                  | Notes  | 2019                      | 2018                      |
|----------------------------------|--------|---------------------------|---------------------------|
| Balance at the beginning of year |        |                           |                           |
| As previously reported           |        | <b>P 1,846,775</b>        | P 2,150,404               |
| Restatement                      | 25.5   | <u>137,306</u>            | ( 65,695)                 |
| As restated                      |        | <b>1,984,081</b>          | 2,084,709                 |
| Additions during the year        |        | <b>290,932</b>            | 131,309                   |
| Sales during the year            | 19, 20 | <b>( 230,301)</b>         | ( 416,737)                |
| Reclassification                 | 12     | <u>-</u>                  | <u>184,800</u>            |
| Balance at the end of year       |        | <b><u>P 2,044,712</u></b> | <b><u>P 1,984,081</u></b> |

In 2019 and 2018, the Group recognized gain from repossession of inventory amounting to P7,760 and P15,274, respectively and is presented as part of Miscellaneous Income (Charges) account under Other Income (Charges) section in the 2019 and 2018 consolidated statements of comprehensive income.

In 2018, the Group reclassified a certain parcel of land from Investment Property account to Real Estate Project account (see Notes 12 and 25.5).

The net realizable value of real estate projects is higher than its carrying value as of December 31, 2019 and 2018, based on management's assessment.

## 9. RAW LAND INVENTORY

Below is a summary of the aggregate cost of raw land inventory as of December 31 being held by the Parent Company and its subsidiaries.

|                                               | 2019                      | 2018                      |
|-----------------------------------------------|---------------------------|---------------------------|
| SMPI                                          | <b>P 1,375,072</b>        | P 1,383,781               |
| Geosolutions                                  | <b>605,923</b>            | 605,497                   |
| Rapidshare Realty and Development Corporation | <b>229,806</b>            | 229,806                   |
| Excel Unified                                 | <b>117,595</b>            | 117,239                   |
| Grandioso Realty Corporation                  | <b>71,202</b>             | 71,160                    |
| Brillar Realty and Development Corp.          | <b>45,584</b>             | 45,584                    |
| First Monte Sierra Realty Corp.               | <b>43,424</b>             | 43,424                    |
| Coron Islands Holdings, Inc.                  | <b>36,662</b>             | 36,662                    |
| Tierra Castellanas Development, Inc.          | <b>25,068</b>             | 25,067                    |
| Busuanga Bay Holdings, Inc.                   | <b>22,096</b>             | 22,096                    |
| Dimanyan Wakes Holdings, Inc                  | <b>16,259</b>             | 16,259                    |
| Elite Montagne Realty Corp.                   | <b>11,609</b>             | 11,609                    |
| Bulalacao Property Holdings, Inc.             | <b>7,656</b>              | 7,656                     |
| Calamian Prime Holdings, Inc.                 | <b>5,201</b>              | 5,202                     |
| Palawan White Sands Holdings Corp.            | <u><b>2,989</b></u>       | <u>2,989</u>              |
|                                               | <b><u>P 2,616,146</u></b> | <b><u>P 2,624,031</u></b> |

An analysis of the carrying amounts of raw land inventory is presented below.

|                                               | Notes | 2019                      | 2018                      |
|-----------------------------------------------|-------|---------------------------|---------------------------|
| Balance at beginning of year                  |       | <b>P 2,624,031</b>        | P 2,606,686               |
| Disposal                                      | 19    | ( 6,784)                  | -                         |
| Reclassification                              | 12    | ( 2,200)                  | -                         |
| Additions                                     |       | <b>1,099</b>              | 27,664                    |
| Derecognition due to disposal of a subsidiary | 5     | <u>-</u>                  | ( <u>10,319</u> )         |
| Balance at end of year                        |       | <b><u>P 2,616,146</u></b> | <b><u>P 2,624,031</u></b> |

In 2019 and 2018, the Company and certain subsidiaries incurred costs to effect transfer of the titles of certain properties. The costs were capitalized as part of Raw Land Inventory account in the consolidated statements of financial position.

In 2019, the Group started leasing out one of its properties originally presented as part of Raw Land Inventory account. Due to the change in use, the property was reclassified to Investment Property account in the 2019 consolidated statement of financial position (see Note 12). There was no similar reclassification in 2018.

Management determined that these properties have a total fair value of P10,739,644 and P10,218,323 as of December 31, 2019 and 2018, respectively. Fair value is determined by independent appraisers through appraisal reports, or from existing bid or offer prices, and from recent sale of adjacent properties.

Information about the fair value measurement and disclosures related to raw land inventories are presented in Note 30.4.

## 10. DEPOSITS ON LAND FOR FUTURE DEVELOPMENT

This account includes the Group's advance payments for certain land acquisitions which are intended for future development.

In prior years, the Group made contributions to a real estate project with other domestic companies for the development of two parcels of subdivided lots in two separate locations. The contributions to this project, which amounted to P561,111, are being administered by a trustee bank, the real estate manager. The Group, through its property consolidator and legal consultant (the Consultant) has already completed the documentations, consolidation and transfer of title under its name of a portion of one of the two parcels of subdivided lots. Those subdivided lots amounting to P50,500 were presented under Raw Land Inventory account in prior years.

Based on the advice by the Consultant, management believes that it will take a long period of time to complete the documentation process, consolidation of the titles and other activities relative to the acquisition of the remaining portion of subdivided lots. These activities are not yet completed as of December 31, 2019. Accordingly, the Group presented the outstanding balance of deposits as of December 31, 2019 and 2018 amounting to P572,798 and P572,319, respectively, as part of Deposits on Land for Future Development account under the Noncurrent Assets section of the consolidated statements of financial position.

The movements in the carrying amounts as of December 31, 2019 and 2018 of deposits on land for future development are presented below.

|                                                  | <u>Note</u> | <u>2019</u>               | <u>2018</u>               |
|--------------------------------------------------|-------------|---------------------------|---------------------------|
| Balance at beginning of year                     |             | <b>P 1,774,689</b>        | P 1,932,318               |
| Additions                                        |             | <b>389,207</b>            | 544,652                   |
| Derecognition due to disposal<br>of a subsidiary | 5           | <u>-</u>                  | ( <u>702,281</u> )        |
| Balance at end of year                           |             | <b><u>P 2,163,896</u></b> | <b><u>P 1,774,689</u></b> |

In 2018, the Group disposed its investment to Legacy, which resulted in the derecognition of Legacy's deposit on land for future development in the 2018 consolidated statement of financial position. There was no similar transaction in 2019 and 2017.

Based on management's evaluation, the recoverable value of deposits on land for future development is higher than its carrying amount as of December 31, 2019 and 2018.

## 11. EQUITY ADVANCES AND INVESTMENTS IN ASSOCIATES

The composition of equity advances and investments in associates account is as follows as of December 31:

|                           | <u>Note</u> | <u>2019</u>                | <u>2018</u>                |
|---------------------------|-------------|----------------------------|----------------------------|
| Investments in associates | 11.1        | <b>P 10,005,191</b>        | P 9,714,066                |
| Equity advances – net     | 11.2        | <b><u>873,352</u></b>      | <u>870,289</u>             |
|                           |             | <b><u>P 10,878,542</u></b> | <b><u>P 10,584,355</u></b> |

### 11.1 Investments in Associates

Investments in associates as of December 31, 2019 and 2018, accounted for under the equity method, is as follows:

|                                                                              | <u>2019</u>             | <u>2018</u>        |
|------------------------------------------------------------------------------|-------------------------|--------------------|
| Acquisition costs:                                                           |                         |                    |
| BOC                                                                          | <b>P 7,801,496</b>      | P 7,801,496        |
| NLI                                                                          | <b><u>232,000</u></b>   | <u>232,000</u>     |
|                                                                              | <b><u>8,033,496</u></b> | <u>8,033,496</u>   |
| Accumulated share in total comprehensive<br>income at beginning of the year: |                         |                    |
| BOC                                                                          |                         |                    |
| As previously reported                                                       | <b>1,518,706</b>        | 1,657,676          |
| Restatement                                                                  | <u>-</u>                | ( <u>146,732</u> ) |
| As restated                                                                  | <b>1,518,706</b>        | 1,510,944          |
| NLI                                                                          | <b><u>161,864</u></b>   | <u>133,311</u>     |
|                                                                              | <b><u>1,680,570</u></b> | <u>1,644,255</u>   |

|                                                                     | <u>2019</u>                | <u>2018</u>               |
|---------------------------------------------------------------------|----------------------------|---------------------------|
| Share in profit:                                                    |                            |                           |
| BOC                                                                 | 272,211                    | 19,833                    |
| NLI                                                                 | <u>46,077</u>              | <u>38,636</u>             |
|                                                                     | <u>318,288</u>             | <u>58,469</u>             |
| Share in other comprehensive income (loss) of BOC:                  |                            |                           |
| Equity reserve for retirement plan                                  | ( 89,718)                  | 32,516                    |
| Fair value gains (losses) on financial assets through FVOCI         | 66,673                     | ( 53,180)                 |
| Cumulative translation adjustment                                   | ( 4,118)                   | 8,594                     |
|                                                                     | <u>( 27,163)</u>           | <u>( 12,070)</u>          |
| Dividend received                                                   | -                          | ( 10,083)                 |
| Net change during the year                                          | <u>291,125</u>             | <u>36,316</u>             |
| Accumulated share in total comprehensive income at end of the year: |                            |                           |
| BOC                                                                 | 1,763,754                  | 1,518,706                 |
| NLI                                                                 | <u>207,941</u>             | <u>161,864</u>            |
|                                                                     | <u>1,971,695</u>           | <u>1,680,570</u>          |
|                                                                     | <b><u>P 10,005,191</u></b> | <b><u>P 9,714,066</u></b> |

The summarized financial information of the Group's associates shown in their financial statements, are as follows:

|                            | <u>2019</u>          | <u>2018</u>   |
|----------------------------|----------------------|---------------|
| <u>BOC</u>                 |                      |               |
| Total assets               | <b>P 145,033,286</b> | P 153,943,393 |
| Total liabilities          | <b>128,938,294</b>   | 135,963,287   |
| Revenues                   | <b>6,532,238</b>     | 5,218,256     |
| Profit                     | <b>652,723</b>       | 371,385       |
| Other comprehensive income | <b>68,516</b>        | 174,790       |
| <u>NLI</u>                 |                      |               |
| Total assets               | <b>P 3,782,131</b>   | P 3,529,628   |
| Total liabilities          | <b>1,511,805</b>     | 1,488,273     |
| Revenues                   | <b>1,181,528</b>     | 1,180,638     |
| Profit                     | <b>230,383</b>       | 193,178       |

The reconciliation of the above summarized financial information to the share in profit of associates recognized in the consolidated statements of comprehensive income is presented below.

|                                                                | <u>2019</u>             | <u>2018</u>      |
|----------------------------------------------------------------|-------------------------|------------------|
| <u>BOC</u>                                                     |                         |                  |
| Profit                                                         | <u><b>P 652,723</b></u> | <u>P 371,385</u> |
| Adjustments made due to differences in accounting policies in: |                         |                  |
| Investment property                                            | -                       | ( 475,001)       |
| Property and equipment                                         | <u>-</u>                | <u>146,556</u>   |
|                                                                | <u>-</u>                | <u>328,445</u>   |
| Intercompany adjustments                                       | <u>28,998</u>           | <u>6,730</u>     |
| Profit, after adjustments                                      | <b>681,721</b>          | 49,670           |
| Equity ownership interest                                      | <u>39.93%</u>           | <u>39.93%</u>    |
| Share in profit of BOC                                         | <u><b>P 272,211</b></u> | <u>P 19,833</u>  |
| <u>NLI</u>                                                     |                         |                  |
| Profit                                                         | <b>P 230,383</b>        | P 193,178        |
| Equity ownership interest                                      | <u>20.00%</u>           | <u>20.00%</u>    |
| Share in profit of NLI                                         | <u><b>P 46,077</b></u>  | <u>P 38,636</u>  |

As discussed in Note 2.3, in 2018 and previous years, certain accounting policies applied by BOC are not consistent with the accounting policies applied by the Group. These include: (a) measurement of investment property using fair value model; and, (b) measurement of property and equipment using revaluation model. Accordingly, certain adjustments were made by the Group to the audited financial statements of BOC to be consistent with the Group's accounting policies.

However, in 2019, BOC changed its accounting policies in measuring its investment property and property and equipment from revaluation model to cost model. Since the Group has already been recognizing BOC's investment property and property and equipment using cost model in the Group's consolidated financial statements, differences arising from BOC's restatement were applied prospectively by the Group since management assessed that such differences mainly arose from changes in accounting estimates.

BOC is required to meet certain ratios under the Bangko Sentral ng Pilipinas (BSP) regulations to manage the risks inherent in the banking business. As of the end of the reporting periods, BOC has complied with the statutory and regulatory capital requirements which were computed based on the regulatory accounting policies that differ from PFRS in some aspects. BOC's retained earnings as of the end of the reporting periods is restricted from dividend declaration to common stockholders to the extent of the amount of cumulative cash dividend in arrears of P320,200 declared by BOD on December 16, 2008 in favor of the stockholders of certain redeemed preferred shares.

## 11.2 Equity Advances

This account includes cash advances granted to future investees of the Group. These advances will be applied against future subscriptions of the Group to the shares of stock of the future investee companies.

In 2018 and 2017, certain equity advances were provided with allowance for impairment as the management assessed that certain portion were no longer recoverable. The related impairment loss amounted to P3,136 and P76,316, respectively, and is presented as part of Miscellaneous Income (Charges) account under Other Income (Charges) section in the 2018 and 2017 consolidated statements of comprehensive income. There was no additional impairment assessed on equity advances in 2019.

The movements of these equity advances are presented below.

|                              | <u>2019</u>             | <u>2018</u>      |
|------------------------------|-------------------------|------------------|
| Balance at beginning of year | <b>P 870,289</b>        | P 875,369        |
| Additions                    | <b>3,063</b>            | 3,861            |
| Impairment loss              | -                       | ( 3,136)         |
| Reclassifications            | -                       | ( 5,805)         |
| Balance at end of year       | <b><u>P 873,352</u></b> | <u>P 870,289</u> |

A reconciliation of the allowance for impairment at the beginning and end of 2019 and 2018 is shown below.

|                                 | <u>2019</u>            | <u>2018</u>     |
|---------------------------------|------------------------|-----------------|
| Balance at beginning of year    | <b>P 79,452</b>        | P 76,316        |
| Impairment loss during the year | -                      | 3,136           |
| Balance at end of year          | <b><u>P 79,452</u></b> | <u>P 79,452</u> |

## 12. INVESTMENT PROPERTY

The gross amounts and accumulated depreciation and amortization of investment property at the beginning and end of 2019 and 2018 are shown below.

|                                           | <u>Land</u>               | <u>Land Improvements</u> | <u>Building and Improvements</u> | <u>Capital Projects-in-Progress</u> | <u>Right-of-use Assets</u> | <u>Total</u>              |
|-------------------------------------------|---------------------------|--------------------------|----------------------------------|-------------------------------------|----------------------------|---------------------------|
| December 31, 2019                         |                           |                          |                                  |                                     |                            |                           |
| Cost                                      | P 7,921,469               | P 22,866                 | P 1,172,196                      | P 35,489                            | P 48,775                   | P 9,200,795               |
| Accumulated depreciation and amortization | -                         | ( 4,969)                 | ( 455,294)                       | -                                   | ( 6,129)                   | ( 466,392)                |
| Net carrying amount                       | <b><u>P 7,921,469</u></b> | <b><u>P 17,897</u></b>   | <b><u>P 716,902</u></b>          | <b><u>P 35,489</u></b>              | <b><u>P 42,646</u></b>     | <b><u>P 8,734,403</u></b> |
| December 31, 2018                         |                           |                          |                                  |                                     |                            |                           |
| Cost                                      | P 7,083,313               | P 20,953                 | P 1,074,947                      | P 104,924                           | P -                        | P 8,284,137               |
| Accumulated depreciation and amortization | -                         | ( 4,344)                 | ( 434,241)                       | -                                   | -                          | ( 438,585)                |
| Net carrying amount                       | <b><u>P 7,083,313</u></b> | <b><u>P 16,609</u></b>   | <b><u>P 640,706</u></b>          | <b><u>P 104,924</u></b>             | <b><u>P -</u></b>          | <b><u>P 7,845,552</u></b> |
| January 1, 2018                           |                           |                          |                                  |                                     |                            |                           |
| Cost                                      | P 5,073,147               | P 20,792                 | P 616,209                        | P 129,276                           | P -                        | P 5,839,424               |
| Accumulated depreciation and amortization | -                         | ( 3,866)                 | ( 411,416)                       | -                                   | -                          | ( 415,282)                |
| Net carrying amount                       | <b><u>P 5,073,147</u></b> | <b><u>P 16,926</u></b>   | <b><u>P 204,793</u></b>          | <b><u>P 129,276</u></b>             | <b><u>P -</u></b>          | <b><u>P 5,424,142</u></b> |

A reconciliation of the carrying amounts of investment property at the beginning and end of 2019 and 2018 is shown below.

|                                                                                         |   | Land               | Land<br>Improvements | Building<br>and<br>Improvements | Capital<br>Projects-<br>in-Progress | Right-of-<br>use Assets | Total              |
|-----------------------------------------------------------------------------------------|---|--------------------|----------------------|---------------------------------|-------------------------------------|-------------------------|--------------------|
| Balance at January 1, 2019,<br>net of accumulated<br>depreciation and<br>amortization   |   |                    |                      |                                 |                                     |                         |                    |
| As previously stated                                                                    | P | 7,083,313          | P 16,609             | P 640,706                       | P 104,924                           | P -                     | P 7,845,552        |
| Effect of PFRS 16<br>adoption<br>[see Note 2.2(a)]                                      |   | -                  | -                    | -                               | -                                   | 52,255                  | 52,255             |
| As restated                                                                             |   | 7,083,313          | 16,609               | 640,706                         | 104,924                             | 52,255                  | 7,897,807          |
| Additions                                                                               |   | 835,956            | 608                  | 25,260                          | 10,159                              | -                       | 871,983            |
| Reclassifications                                                                       |   | 2,200              | 1,305                | 78,289                          | ( 79,594)                           | -                       | 2,200              |
| Derecognition                                                                           |   | -                  | -                    | -                               | -                                   | ( 3,170)                | ( 3,170)           |
| Disposals                                                                               |   | -                  | -                    | ( 1,027)                        | -                                   | -                       | ( 1,027)           |
| Depreciation and<br>amortization charges<br>during the year                             |   | -                  | ( 625)               | ( 26,326)                       | -                                   | ( 6,439)                | ( 33,390)          |
| Balance at December 31,<br>2019, net of accumulated<br>depreciation and<br>amortization |   | <b>P 7,921,469</b> | <b>P 17,897</b>      | <b>P 716,902</b>                | <b>P 35,489</b>                     | <b>P 42,646</b>         | <b>P 8,734,403</b> |
| Balance at January 1, 2018,<br>net of accumulated<br>depreciation and<br>amortization   | P | 5,073,147          | P 16,926             | P 204,793                       | P 129,276                           | P -                     | P 5,424,142        |
| Additions                                                                               |   | 1,443,835          | 161                  | 331,577                         | 156,152                             | -                       | 1,931,725          |
| Additions from new<br>subsidiary                                                        |   | 694,614            | -                    | -                               | 702                                 | -                       | 695,316            |
| Reclassifications                                                                       | ( | 128,283)           | -                    | 124,689                         | ( 181,206)                          | -                       | ( 184,800)         |
| Depreciation and<br>amortization charges<br>during the year                             |   | -                  | ( 478)               | ( 20,353)                       | -                                   | -                       | ( 20,831)          |
| Balance at December 31,<br>2018, net of accumulated<br>depreciation and<br>amortization |   | <b>P 7,083,313</b> | <b>P 16,609</b>      | <b>P 640,706</b>                | <b>P 104,924</b>                    | <b>P -</b>              | <b>P 7,845,552</b> |

In 2018, the Group acquired a parcel of land situated in Makati City through its acquisition of a new subsidiary (see Note 32). The total amount paid by the Group, inclusive of purchase price and other direct costs relative to the acquisition of the property, amounted to P695,316. Accordingly, the Group recognized such property under Investment Property account on the basis of its relative fair value at the time of acquisition. There was no similar transaction in 2019.

In 2018, total construction cost amounting to P128,283 was reclassified from Land to Building and improvements to correct the disclosure pertaining to the reconciliation of the carrying amounts of Investment property.

On September 2019, the Group derecognized certain right-of-use asset with a carrying amount of P3,170 after the related sublease qualified as a finance lease. The related loss on derecognition was presented as part of Miscellaneous Income (Charges) account under Other Operating Expenses section in the 2019 consolidated statement of comprehensive income (see Notes 19 and 20).

Depreciation charges are reported as part of Depreciation and amortization under Cost of Rentals account and Other Operating Expenses section in the consolidated statements of comprehensive income (see Note 19 and 20).

The total rental income earned from investment property and the related costs are presented as Rental Income and Cost of Rentals accounts, respectively, in the consolidated statements of comprehensive income (see Notes 19 and 27.1). On the other hand, the direct operating costs of investment properties that did not generate rental income, which mostly pertain to real property taxes, amounted to P56,152, P53,887 and P43,390 in 2019, 2018 and 2017, respectively.

The Group also engages in transactions with related parties involving certain investment properties (see Note 24).

Based on the recent reports of independent appraisers, the Group's investment properties have a total fair value of P46,021,637 and P28,662,332 as of December 31, 2019 and 2018, respectively.

Information about the fair value measurement and disclosures related to investment property are presented in Note 30.4.

No investment properties have been pledged as security for any liability of the Group.

### 13. PROPERTY AND EQUIPMENT

The gross amounts and accumulated depreciation, amortization and impairment of property and equipment at the beginning and end of 2019 and 2018 are shown below.

|                                                 |          | Land           |          | Building<br>and<br>Improvements |          | Machineries<br>and<br>Transportation<br>Equipment |          | Furniture<br>Fixture<br>and Other<br>Improvements |          | Capital<br>Projects<br>in-Progress |          | Right-of-use<br>Asset |          | Total            |         |   |
|-------------------------------------------------|----------|----------------|----------|---------------------------------|----------|---------------------------------------------------|----------|---------------------------------------------------|----------|------------------------------------|----------|-----------------------|----------|------------------|---------|---|
| December 31, 2019                               |          |                |          |                                 |          |                                                   |          |                                                   |          |                                    |          |                       |          |                  |         |   |
| Cost                                            | P        | 693,017        | P        | 3,382,046                       | P        | 44,016                                            | P        | 582,359                                           | P        | 1,897,350                          | P        | 907                   | P        | 6,599,695        |         |   |
| Accumulated<br>depreciation and<br>amortization | -        | (              | 292,176  | )                               | (        | 11,808                                            | )        | (                                                 | 456,898  | -                                  | (        | 93                    | )        | (                | 760,975 | ) |
| Accumulated<br>impairment loss                  | -        | (              | 1,020    | )                               | -        | -                                                 | -        | -                                                 | -        | -                                  | -        | -                     | -        | (                | 1,020   | ) |
| Net carrying amount                             | <b>P</b> | <b>693,017</b> | <b>P</b> | <b>3,088,850</b>                | <b>P</b> | <b>32,208</b>                                     | <b>P</b> | <b>125,461</b>                                    | <b>P</b> | <b>1,897,350</b>                   | <b>P</b> | <b>814</b>            | <b>P</b> | <b>5,837,700</b> |         |   |
| December 31, 2018                               |          |                |          |                                 |          |                                                   |          |                                                   |          |                                    |          |                       |          |                  |         |   |
| Cost                                            | P        | 693,017        | P        | 3,359,991                       | P        | 13,673                                            | P        | 546,895                                           | P        | 713,231                            | P        | -                     | P        | 5,326,807        |         |   |
| Accumulated<br>depreciation and<br>amortization | -        | (              | 226,131  | )                               | (        | 10,089                                            | )        | (                                                 | 352,697  | -                                  | -        | -                     | (        | 588,917          | )       |   |
| Accumulated<br>impairment loss                  | -        | (              | 1,020    | )                               | -        | -                                                 | -        | -                                                 | -        | -                                  | -        | -                     | -        | (                | 1,020   | ) |
| Net carrying amount                             | <b>P</b> | <b>693,017</b> | <b>P</b> | <b>3,132,840</b>                | <b>P</b> | <b>3,584</b>                                      | <b>P</b> | <b>194,198</b>                                    | <b>P</b> | <b>713,231</b>                     | <b>P</b> | <b>-</b>              | <b>P</b> | <b>4,736,870</b> |         |   |
| January 1, 2018                                 |          |                |          |                                 |          |                                                   |          |                                                   |          |                                    |          |                       |          |                  |         |   |
| Cost                                            | P        | 693,017        | P        | 3,322,074                       | P        | 26,235                                            | P        | 555,474                                           | P        | 50,595                             | P        | -                     | P        | 4,647,395        |         |   |
| Accumulated<br>depreciation and<br>amortization | -        | (              | 159,556  | )                               | (        | 10,641                                            | )        | (                                                 | 266,009  | -                                  | -        | -                     | (        | 436,206          | )       |   |
| Accumulated<br>impairment loss                  | -        | (              | 1,020    | )                               | -        | -                                                 | -        | -                                                 | -        | -                                  | -        | -                     | -        | (                | 1,020   | ) |
| Net carrying amount                             | <b>P</b> | <b>693,017</b> | <b>P</b> | <b>3,161,498</b>                | <b>P</b> | <b>15,594</b>                                     | <b>P</b> | <b>289,465</b>                                    | <b>P</b> | <b>50,595</b>                      | <b>P</b> | <b>-</b>              | <b>P</b> | <b>4,210,169</b> |         |   |

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2019 and 2018 is shown below and in the succeeding page.

|                                                                                           |   | Land    |   | Building and Improvements |   | Machineries and Transportation Equipment |   | Furniture Fixture and Other Improvements |   | Capital Projects in-Progress |   | Right-of-use Asset |   | Total     |
|-------------------------------------------------------------------------------------------|---|---------|---|---------------------------|---|------------------------------------------|---|------------------------------------------|---|------------------------------|---|--------------------|---|-----------|
| Balance at January 1, 2019, net of accumulated depreciation, amortization, and impairment |   |         |   |                           |   |                                          |   |                                          |   |                              |   |                    |   |           |
| As previously stated                                                                      | P | 693,017 | P | 3,132,840                 | P | 3,584                                    | P | 194,198                                  | P | 713,231                      | P | -                  | P | 4,736,870 |
| Effect of PFRS 16 adoption [(see Note 2.2(a))]                                            |   | -       |   | -                         |   | -                                        |   | -                                        |   | -                            |   | 907                |   | 907       |
| As restated                                                                               |   | 693,017 |   | 3,132,840                 |   | 3,584                                    |   | 194,198                                  |   | 713,231                      |   | 907                |   | 4,737,777 |
| Additions                                                                                 | - |         |   | 4,120                     |   | 31,354                                   |   | 37,288                                   |   | 1,202,535                    |   | -                  |   | 1,275,297 |
| Reclassifications                                                                         | - |         |   | 18,416                    |   | -                                        |   | -                                        | ( | 18,416)                      |   | -                  |   | -         |
| Retirement of asset                                                                       | - |         |   | -                         |   | -                                        | ( | 155)                                     |   | -                            |   | -                  | ( | 155)      |
| Depreciation and amortization charges for the year                                        |   | -       | ( | 66,526)                   | ( | 2,730)                                   | ( | 105,870)                                 |   | -                            | ( | 93)                | ( | 175,219)  |
| Net carrying amount                                                                       | P | 693,017 | P | 3,088,850                 | P | 32,208                                   | P | 125,461                                  | P | 1,897,350                    | P | 814                | P | 5,837,700 |



|                                                                                           | <u>Land</u>      | <u>Building and Improvements</u> | <u>Machineries and Transportation Equipment</u> | <u>Furniture Fixture and Other Improvements</u> | <u>Capital Projects in-Progress</u> | <u>Right-of-use Asset</u> | <u>Total</u>       |
|-------------------------------------------------------------------------------------------|------------------|----------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------|---------------------------|--------------------|
| Balance at January 1, 2018, net of accumulated depreciation, amortization, and impairment | P 693,017        | P 3,161,498                      | P 15,594                                        | P 289,465                                       | P 50,595                            | P -                       | P 4,210,169        |
| Additions                                                                                 | -                | 33,048                           | 3,104                                           | 12,752                                          | 668,150                             | -                         | 717,054            |
| Reclassifications                                                                         | -                | 4,869                            | ( 13,140 )                                      | 645                                             | ( 5,514 )                           | -                         | ( 13,140 )         |
| Disposals                                                                                 | -                | -                                | -                                               | ( 5,026 )                                       | -                                   | -                         | ( 5,026 )          |
| Depreciation and amortization charges for the year                                        | -                | ( 66,575 )                       | ( 1,974 )                                       | ( 103,638 )                                     | -                                   | -                         | ( 172,187 )        |
| Net carrying amount                                                                       | <u>P 693,017</u> | <u>P 3,132,840</u>               | <u>P 3,584</u>                                  | <u>P 194,198</u>                                | <u>P 713,231</u>                    | <u>P -</u>                | <u>P 4,736,870</u> |

Depreciation charges are reported as part of Depreciation and amortization under Cost of Room Services and Cost of Food and Beverages Sold account and Other Operating Expenses section in the consolidated statements of comprehensive income (see Note 19 and 20).

Certain fully depreciated assets with acquisition costs of P58,127 and P41,937 as of December 31, 2019 and 2018, respectively, are still being used in the Group's operations.

No impairment loss was recognized in December 31, 2019 and 2018 as the recoverable amount of the property and equipment determined by management is higher than their carrying values.

#### 14. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of 2019 and 2018 are shown below.

|                          | <u>Software Licenses</u> | <u>Land Use Rights</u> | <u>Total</u>     |
|--------------------------|--------------------------|------------------------|------------------|
| December 31, 2019        |                          |                        |                  |
| Cost                     | P 35,171                 | P 164,213              | P 199,384        |
| Accumulated amortization | ( 33,631 )               | ( 842 )                | ( 34,473 )       |
| Net carrying amount      | <u>P 1,540</u>           | <u>P 163,371</u>       | <u>P 164,911</u> |
| December 31, 2018        |                          |                        |                  |
| Cost                     | P 34,164                 | P 164,213              | P 198,377        |
| Accumulated amortization | ( 30,874 )               | ( 632 )                | ( 31,506 )       |
| Net carrying amount      | <u>P 3,290</u>           | <u>P 163,581</u>       | <u>P 166,871</u> |
| January 1, 2018          |                          |                        |                  |
| Cost                     | P 33,567                 | P 164,213              | P 197,780        |
| Accumulated amortization | ( 24,693 )               | -                      | ( 24,693 )       |
| Net carrying amount      | <u>P 8,874</u>           | <u>P 164,213</u>       | <u>P 173,087</u> |

A reconciliation of the carrying amounts of intangible assets for the beginning and end of 2019 and 2018 is shown below and in the succeeding page.

|                                                               | <u>Software Licenses</u> | <u>Land Use Rights</u> | <u>Total</u>     |
|---------------------------------------------------------------|--------------------------|------------------------|------------------|
| Balance at January 1, 2019, net of accumulated amortization   | P 3,289                  | P 163,581              | P 166,870        |
| Additions                                                     | 1,008                    | -                      | 1,008            |
| Amortization charges for the year                             | ( 2,757 )                | ( 210 )                | ( 2,967 )        |
| Balance at December 31, 2019, net of accumulated amortization | <u>P 1,540</u>           | <u>P 163,371</u>       | <u>P 164,911</u> |

|                                                                  | Software<br>Licenses | Land Use<br>Rights | Total            |
|------------------------------------------------------------------|----------------------|--------------------|------------------|
| Balance at January 1, 2018, net of<br>accumulated amortization   | P 8,874              | P 164,213          | P 173,087        |
| Additions                                                        | 597                  | -                  | 597              |
| Amortization charges for the year                                | ( 6,181 )            | ( 632 )            | ( 6,813 )        |
| Balance at December 31, 2018,<br>net of accumulated amortization | <u>P 3,290</u>       | <u>P 163,581</u>   | <u>P 166,871</u> |

Land use rights pertains to the interest in a joint arrangement on a certain development project. The development project commenced in 2018.

Intangible assets with finite useful lives are subject to impairment testing whenever there is an indication of impairment. No impairment loss was recognized in 2019, 2018 and 2017 as the recoverable amounts of the intangible assets determined by management are higher than their carrying values.

The amount of amortization charges is presented as part of Depreciation and amortization under Other Operating Expenses section in the consolidated statements of comprehensive income (see Note 20).

No intangible assets have been pledged as security for any liabilities of the Group.

## 15. OTHER ASSETS

This account consists of the following:

|                           | Note | 2019                      | 2018                      |
|---------------------------|------|---------------------------|---------------------------|
| Current:                  |      |                           |                           |
| Input VAT                 |      | <b>P 873,884</b>          | P 771,712                 |
| Prepaid expenses          |      | <b>455,356</b>            | 375,237                   |
| Contract assets           | 15.3 | <b>11,850</b>             | 62,145                    |
| Inventories               |      | <b>9,068</b>              | 9,366                     |
| Others                    |      | <u><b>295</b></u>         | <u>56</u>                 |
|                           |      | <b><u>P 1,350,453</u></b> | <b><u>P 1,218,516</u></b> |
| Noncurrent:               |      |                           |                           |
| Goodwill                  | 15.1 | <b>27,462</b>             | 27,462                    |
| Financial assets at FVOCI | 15.2 | <u><b>13,610</b></u>      | <u>13,610</u>             |
|                           |      | <b><u>41,072</u></b>      | <b><u>41,072</u></b>      |
|                           |      | <b><u>P 1,391,525</u></b> | <b><u>P 1,259,588</u></b> |

Inventories, which are all stated at cost, pertain to supplies, food and beverages. The cost of inventories recognized as expense in 2019, 2018 and 2017 is shown in Note 19.

### 15.1 Goodwill

Goodwill pertains to the excess of cost over fair value of net assets of Excel Unified at the time of acquisition. It is primarily related to growth expectations, expected future profitability and expected cost of synergies.

Management's impairment analysis for Excel Unified was based on discounted cash flows based on the cash generating unit's five-year financial projections using the entity's weighted average cost of capital as the discount rate, which is 5.05%. The weighted average cost of capital of Excel was computed based on the capital asset pricing model. Further, the impairment analysis generally assumes terminal growth rate of 3.30%, which was based on the forecasted Philippine average growth rate of residential real estate price index in 2019. Revenue projections were based on the capacities of existing and projected capital expenditures within the five-year period. Management also assessed that the entities will continue as a going concern entity and will have sufficient financial resources to finance its working capital requirements to achieve its projected forecast and to support its business needs.

Based on this analysis, management has assessed that no impairment of goodwill is required to be recognized as of December 31, 2019 and 2018.

### 15.2 Financial Assets at FVOCI

The fair values of financial assets at FVOCI have been determined by reference to published prices in the market. Included in financial assets at FVOCI are golf club shares, which are proprietary membership club shares, and listed equity securities.

The reconciliation of the carrying value of financial assets at FVOCI is shown below.

|                              | <u>2019</u>            | <u>2018</u>            |
|------------------------------|------------------------|------------------------|
| Balance at beginning of year | <b>P 13,610</b>        | P 10,685               |
| Fair value gains             | <u>-</u>               | <u>2,925</u>           |
| Balance at end of year       | <b><u>P 13,610</u></b> | <b><u>P 13,610</u></b> |

### 15.3 Contract Accounts

The significant changes in the contract assets and contract liabilities balances as of and for the years ended December 31, 2019 and 2018 are as follows:

|                                                            | <u>2019</u>            | <u>2018</u>            |
|------------------------------------------------------------|------------------------|------------------------|
| Contract assets:                                           |                        |                        |
| Balance at beginning of year                               | <b>P 62,145</b>        | P 24,713               |
| Increase as a result of changes in measurement of progress | <b>11,850</b>          | 37,432                 |
| Decrease due to accomplishment of projects                 | <b>( 57,246)</b>       | -                      |
| Decrease due to cash received                              | <b>( 4,899)</b>        | -                      |
|                                                            | <b><u>P 11,850</u></b> | <b><u>P 62,145</u></b> |

|                                                                                            | <u>2019</u>         | <u>2018</u>         |
|--------------------------------------------------------------------------------------------|---------------------|---------------------|
| Contract liabilities:                                                                      |                     |                     |
| Balance at beginning of year                                                               | <b>P 219</b>        | P -                 |
| Increase due to cash received<br>excluding amount recognized<br>as revenue during the year | <b>396</b>          | 219                 |
| Decrease due to accomplishment<br>of projects                                              | <b>( 219 )</b>      | <u>-</u>            |
|                                                                                            | <b><u>P 396</u></b> | <b><u>P 219</u></b> |

Contract liabilities are presented as part of Other payables under Trade and Other Payables account (see Note 17) in the consolidated statements of financial position.

## 16. LOANS AND BORROWINGS

In the normal course of business, the Group obtains from local financial institutions unsecured, short-term, interest-bearing loans for the acquisitions of parcels of land and development of its real estate projects and property and equipment. These loans are renewable on a monthly basis and bear annual interest rates ranging from 0.25% to 7.25% in 2019, 2.25% to 7.25% in 2018, and 2.00% to 5.75% in 2017. The related loan agreements do not contain loan covenant provisions.

Interest expense charged to operations amounted to P585,207, P420,899 and P300,917 in 2019, 2018 and 2017, respectively, and is presented as part of Finance costs under Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 21.1 and 33). Unpaid interest amounting to P37,210 and P35,171 as of December 31, 2019 and 2018, respectively, is shown as part of Other payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 17).

Prior to 2019, the Group capitalized borrowing costs from interest-bearing loans and borrowings specifically obtained for the construction of its real estate projects. However, as discussed in Note 25.5, real estate inventories do not qualify as a qualifying asset as defined by PAS 23. Accordingly, the Group recognized retrospective adjustments on its retained earnings and other related accounts.

No assets are pledged as collateral to the existing loans as of December 31, 2019 and 2018.

## 17. TRADE AND OTHER PAYABLES

This account is composed of:

|                   | Notes    | 2019               | 2018               |
|-------------------|----------|--------------------|--------------------|
| Current:          |          |                    |                    |
| Accounts payable  | 24       | <b>P 985,307</b>   | P 727,131          |
| Retention payable |          | <b>227,844</b>     | 143,125            |
| Taxes payable     |          | <b>149,318</b>     | 126,438            |
| Provisions        | 27.4     | <b>4,564</b>       | 4,564              |
| Other payables    | 15.3, 16 | <b>37,958</b>      | 35,656             |
|                   |          | <b>1,404,991</b>   | 1,036,914          |
| Noncurrent –      |          |                    |                    |
| Accounts payable  |          | <b>-</b>           | 11,152             |
|                   |          | <b>P 1,404,991</b> | <b>P 1,048,066</b> |

Other payables significantly include accruals for various operating expenses, such as interest expense, outside services and short-term employee benefits. Contract liabilities are also recognized as part of other payables.

The carrying amount of accounts payable, retention payable and other payables, which are presented as current liabilities and are expected to be settled within the next 12 months from the end of the reporting period, is a reasonable approximation of fair value.

## 18. LEASES

The Group leases a certain building with remaining lease term of eight years, which is currently being subleased by the Group to other parties. The outstanding obligation relating to this lease contract as of December 31, 2019 is presented as part of Lease Liabilities account in the 2019 consolidated financial statement of financial position. Moreover, the Group recognized Finance lease receivables under Receivables account (see Note 7) on the portion of the building that are under sublease agreements classified as finance leases. The remaining portion of the building that is not under sublease agreement classified as finance leases is presented as Right-of-use assets under Investment Property account in the 2019 consolidated statement of financial position (see Note 12).

The Group also leases a certain parcel of land with remaining lease term of nine years, where one of its office buildings stands. The Group recognized Right-of-use asset for the leased land as part of Property and Equipment account (see Note 13) and the corresponding liability as part of Lease Liabilities account in the 2019 consolidated statement of financial position.

The leases do not have variable lease payments which depend on an index or a rate. The leases are non-cancellable and do not contain an option to purchase the underlying lease asset outright at the end of the leases, or to extend the leases for a further term without mutual agreement on both parties. The Group is prohibited from selling or pledging the underlying leased assets as security. The Group must also keep the properties in a good state of repair and return the properties in their original condition at the end of the leases. Further, the Group must incur maintenance fees on such properties in accordance with the lease contracts.

### **18.1 Lease Liabilities**

Lease liabilities are presented in the consolidated statement of financial position as at December 31, 2019 as follows:

|             |   |                |
|-------------|---|----------------|
| Current     | P | 10,091         |
| Non-current |   | <u>125,271</u> |
|             | P | <u>135,362</u> |

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost or location or determined that it is advantageous to remain in a location beyond the original lease term. The future cash outflows to which the Group is potentially exposed are not reflected in the measurement of lease liabilities represent the amount of security deposit to be forfeited in case the lease is terminated. An option is only exercised when consistent with the Group's business strategy and the economic benefits of exercising such option exceeds the expected overall cost. As of December 31, 2019, the Group has no historical experience of exercising termination options for its existing lease agreements.

As of December 31, 2019, the Group has no commitments for leases entered into but which had not commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of December 31, 2019 is as follows:

|                   | <u>Within<br/>1 year</u> | <u>Less than<br/>5 years</u> | <u>More than<br/>5 years</u> | <u>Total</u>      |
|-------------------|--------------------------|------------------------------|------------------------------|-------------------|
| Lease payments    | P 23,335                 | P 134,722                    | P 28,651                     | P 186,708         |
| Finance charges   | ( <u>13,244</u> )        | ( <u>36,916</u> )            | ( <u>1,186</u> )             | ( <u>51,346</u> ) |
| Net present value | <u>P 10,091</u>          | <u>P 97,806</u>              | <u>P 27,465</u>              | <u>P 135,362</u>  |

### **18.2 Additional Profit or Loss and Cash Flow Information**

The total cash outflows and inflows in 2019 in respect of leases amounted to P10,217 and P14,269, respectively. Interest expense and interest income in relation to lease liabilities and finance lease receivables amounted to P12,014 and P7,070, respectively, and are presented as part of Finance costs and Finance income under Other Income (Charges) account, respectively, in the 2019 consolidated statement of comprehensive income (see Note 21).

## 19. COSTS OF SALES AND SERVICES

These accounts are composed of the following:

|                                  | Notes | 2019             | 2018<br>(As Restated –<br>see Note 25.5) | 2017<br>(As Restated –<br>see Note 25.5) |
|----------------------------------|-------|------------------|------------------------------------------|------------------------------------------|
| Cost of real estate sold:        |       |                  |                                          |                                          |
| Real estate projects             | 8     | P 230,301        | P 416,737                                | P 639,603                                |
| Raw land inventory               | 9     | 6,784            | -                                        | 11,106                                   |
|                                  | 20    | <u>P 237,085</u> | <u>P 416,737</u>                         | <u>P 650,709</u>                         |
| Cost of room services:           |       |                  |                                          |                                          |
| Depreciation and amortization    | 13    | P 134,755        | P 130,052                                | P 106,796                                |
| Outside services                 | 24    | 105,856          | 96,645                                   | 83,671                                   |
| Utilities                        |       | 48,872           | 47,476                                   | 34,443                                   |
| Supplies                         |       | 28,351           | 25,098                                   | 29,959                                   |
| Commission                       |       | 16,671           | 15,899                                   | 16,321                                   |
| Laundry                          |       | 14,119           | 13,436                                   | 11,512                                   |
| Repairs and maintenance          |       | 13,540           | 9,268                                    | 11,937                                   |
| Others                           |       | 28,791           | 31,568                                   | 26,972                                   |
|                                  | 20    | <u>P 390,955</u> | <u>P 369,442</u>                         | <u>P 321,611</u>                         |
| Cost of food and beverages sold: |       |                  |                                          |                                          |
| Food and beverages sold          | 15    | P 67,733         | P 60,192                                 | P 55,709                                 |
| Outside services                 | 24    | 45,315           | 39,727                                   | 41,217                                   |
| Depreciation and amortization    | 13    | 39,557           | 37,754                                   | 59,131                                   |
| Utilities                        |       | 14,846           | 13,761                                   | 19,191                                   |
| Supplies                         |       | 8,967            | 7,653                                    | -                                        |
| Laundry                          |       | 1,217            | 1,078                                    | 942                                      |
| Others                           |       | 9,336            | 7,331                                    | 10,712                                   |
|                                  | 20    | <u>P 186,971</u> | <u>P 167,496</u>                         | <u>P 186,902</u>                         |
| Cost of rentals:                 |       |                  |                                          |                                          |
| Taxes and licenses               |       | P 30,336         | P 23,357                                 | P 23,583                                 |
| Depreciation and amortization    | 12    | 20,779           | 13,650                                   | 13,915                                   |
| Outside services                 |       | 12,202           | 6,510                                    | 7,830                                    |
| Dues and subscriptions           |       | 6                | 111                                      | 1,141                                    |
| Rentals                          |       | 25               | 24,771                                   | 24,768                                   |
| Others                           |       | 2,078            | 2,439                                    | 6,456                                    |
|                                  | 20    | <u>P 65,426</u>  | <u>P 70,838</u>                          | <u>P 77,693</u>                          |

Other expenses under Cost of Room Services include management fees, meals, transportation and other expenses incurred in rendering room services.

Other expenses under Cost of Rentals include insurance, seminar fees, utilities, supplies and other necessary expenses incurred for the Group's investment properties.

## 20. OPERATING EXPENSES BY NATURE

The details of operating expenses presented by nature are as follows:

|                                   | Notes         | 2019                      | 2018<br>(As Restated –<br>see Note 25.5) | 2017<br>(As Restated –<br>see Note 25.5) |
|-----------------------------------|---------------|---------------------------|------------------------------------------|------------------------------------------|
| Outside services                  | 24            | <b>P 385,747</b>          | P 338,981                                | P 313,208                                |
| Real estate projects sold         | 8, 19         | <b>230,301</b>            | 416,737                                  | 639,603                                  |
| Depreciation and<br>amortization  | 12, 13,<br>14 | <b>211,576</b>            | 199,831                                  | 193,092                                  |
| Taxes and licenses                |               | <b>182,552</b>            | 142,762                                  | 118,391                                  |
| Salaries and employee<br>benefits | 22.1          | <b>171,255</b>            | 141,878                                  | 118,476                                  |
| Utilities                         |               | <b>68,148</b>             | 65,945                                   | 53,634                                   |
| Food and beverages sold           | 15, 19        | <b>67,733</b>             | 60,192                                   | 55,709                                   |
| Supplies                          |               | <b>59,391</b>             | 48,820                                   | 55,402                                   |
| Commissions                       |               | <b>41,987</b>             | 43,818                                   | 54,984                                   |
| Advertising                       |               | <b>26,358</b>             | 28,197                                   | 20,374                                   |
| Repairs and maintenance           |               | <b>24,625</b>             | 41,800                                   | 36,173                                   |
| Impairment loss<br>on receivables | 7             | <b>16,439</b>             | 51,361                                   | 43,957                                   |
| Laundry                           |               | <b>15,336</b>             | 14,514                                   | 12,455                                   |
| Raw land inventory sold           | 9, 19         | <b>6,784</b>              |                                          | 11,106                                   |
| Communications                    |               | <b>3,025</b>              | 3,542                                    | 10,560                                   |
| Miscellaneous                     | 12            | <b>114,047</b>            | 125,579                                  | 87,015                                   |
|                                   |               | <b><u>P 1,625,304</u></b> | <u>P 1,723,957</u>                       | <u>P 1,824,139</u>                       |

These expenses are classified in the consolidated statements of comprehensive income as follows:

|                            | Note | 2019                      | 2018<br>(As Restated –<br>see Note 25.5) | 2017<br>(As Restated –<br>see Note 25.5) |
|----------------------------|------|---------------------------|------------------------------------------|------------------------------------------|
| Cost of room services      | 19   | <b>P 390,955</b>          | P 369,442                                | P 321,611                                |
| Cost of real estate sold   | 19   | <b>237,085</b>            | 416,737                                  | 650,709                                  |
| Cost of food and beverages | 19   | <b>186,971</b>            | 167,496                                  | 186,902                                  |
| Cost of rentals            | 19   | <b>65,426</b>             | 70,838                                   | 77,693                                   |
| Other operating expenses   |      | <b>744,867</b>            | 699,444                                  | 587,224                                  |
|                            |      | <b><u>P 1,625,304</u></b> | <u>P 1,723,957</u>                       | <u>P 1,824,139</u>                       |



## 21. OTHER INCOME (CHARGES)

Presented below are the details of other income (charges).

### 21.1 Finance Costs

|                                                                    | <u>Notes</u> | <u>2019</u>             | <u>2018</u><br>(As Restated – see Note 25.5) | <u>2017</u><br>(As Restated – see Note 25.5) |
|--------------------------------------------------------------------|--------------|-------------------------|----------------------------------------------|----------------------------------------------|
| Interest expense on:                                               |              |                         |                                              |                                              |
| Loans and borrowings                                               | 16           | <b>P 585,207</b>        | P 420,899                                    | P 300,917                                    |
| Lease liabilities                                                  | 18.2         | <b>12,014</b>           | -                                            | -                                            |
| Others                                                             |              | <b>3,720</b>            | -                                            | -                                            |
|                                                                    |              | <b>600,941</b>          | 420,899                                      | 300,917                                      |
| Bank charges                                                       |              | <b>77,761</b>           | 73,417                                       | 43,970                                       |
| Net interest expense on defined benefit obligation and plan assets | 22.2         | <b>645</b>              | 1,046                                        | 1,235                                        |
|                                                                    |              | <b><u>P 679,347</u></b> | <u>P 495,362</u>                             | <u>P 346,122</u>                             |

### 21.2 Finance Income

|                                    | <u>Notes</u> | <u>2019</u>            | <u>2018</u>     | <u>2017</u>     |
|------------------------------------|--------------|------------------------|-----------------|-----------------|
| Interest income from:              |              |                        |                 |                 |
| Contract receivables               | 7.1          | <b>P 35,171</b>        | P 34,846        | P 35,506        |
| Deposits and short-term placements | 6            | <b>13,187</b>          | 26,394          | 10,262          |
| Finance lease receivables          | 18.2         | <b>7,070</b>           | -               | -               |
|                                    |              | <b><u>P 55,428</u></b> | <u>P 61,240</u> | <u>P 45,768</u> |

### 21.3 Miscellaneous Income (Charges)

The Group's miscellaneous income (charges) consist of gain from repossession of inventory, impairment of nonfinancial assets, sale of property equipment, donations and contributions, foreign exchange gains and losses and other miscellaneous income (see Notes 7, 8 and 11).

## 22. EMPLOYEE BENEFITS

### 22.1 *Salaries and Employee Benefits Expense*

The expense recognized for Salaries and employee benefits as part of Other Operating Expenses account is analyzed below (see Note 20).

|                              | Note | 2019             | 2018             | 2017             |
|------------------------------|------|------------------|------------------|------------------|
| Short-term employee benefits |      | P 165,006        | P 136,450        | P 113,382        |
| Retirement benefits          | 22.2 | <u>6,249</u>     | <u>5,428</u>     | <u>5,094</u>     |
|                              |      | <u>P 171,255</u> | <u>P 141,878</u> | <u>P 118,476</u> |

### 22.2 *Retirement Plan*

#### (a) *Characteristics of the Defined Benefit Plan*

The Group maintains a tax-qualified, partially funded, noncontributory defined benefit plan that is being administered by a trustee covering all of its regular employees. It provides a post-employment benefit equal to 100% of the monthly final pay for every year of credited service plus commutation of sick leave credits, if any. Actuarial valuations are made annually to update the retirement benefit obligation and the amount of contributions. The most recent actuarial valuation report is dated December 31, 2019 covering the valuation of the Group's retirement benefit obligation as of the same period. Annual cost is determined using the projected unit credit method.

The subsidiaries of the Group have no retirement plan. The finance and administrative functions of most subsidiaries are being handled by the Group, through a service agreement.

The plan is registered with the Bureau of Internal Revenue as a tax-qualified plan under Republic Act No. 4917, as amended. The control and administration of the retirement plan is vested in the BOT. Some of the members of BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also key members of the Group's management. The retirement plan's accounting and administrative functions are undertaken by the SMC Retirement Funds Office.

#### (b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding page are based on the actuarial valuation report obtained from an independent actuary in 2019, 2018 and 2017.

The following table shows a reconciliation of the net retirement benefit liability and its components:

|                                                                   | Present value<br>of retirement benefit liability |                        |                        | Fair value of plan assets |                        |                        | Net retirement benefit liability |                        |                        |
|-------------------------------------------------------------------|--------------------------------------------------|------------------------|------------------------|---------------------------|------------------------|------------------------|----------------------------------|------------------------|------------------------|
|                                                                   | 2019                                             | 2018                   | 2017                   | 2019                      | 2018                   | 2017                   | 2019                             | 2018                   | 2017                   |
| <b>Balance at beginning of year</b>                               | <b>P 69,602</b>                                  | P 50,485               | P 37,545               | <b>P 48,209</b>           | P 18,091               | P 11,593               | <b>P 21,393</b>                  | P 32,394               | P 25,952               |
| <b>Recognized in profit or loss:</b>                              |                                                  |                        |                        |                           |                        |                        |                                  |                        |                        |
| Current service cost                                              | 6,249                                            | 5,428                  | 5,094                  | -                         | -                      | -                      | 6,249                            | 5,428                  | 5,094                  |
| Interest expense                                                  | 5,241                                            | 2,999                  | 1,997                  | -                         | -                      | -                      | 5,241                            | 2,999                  | 1,997                  |
| Interest income                                                   | -                                                | -                      | -                      | 4,596                     | 1,953                  | 762                    | ( 4,596 )                        | ( 1,953 )              | ( 762 )                |
|                                                                   | <u>11,490</u>                                    | <u>8,427</u>           | <u>7,091</u>           | <u>4,596</u>              | <u>1,953</u>           | <u>762</u>             | <u>6,894</u>                     | <u>6,474</u>           | <u>6,329</u>           |
| <b>Recognized in other comprehensive income:</b>                  |                                                  |                        |                        |                           |                        |                        |                                  |                        |                        |
| Remeasurements:                                                   |                                                  |                        |                        |                           |                        |                        |                                  |                        |                        |
| Actuarial losses (gains) arising from:                            |                                                  |                        |                        |                           |                        |                        |                                  |                        |                        |
| Experience adjustments                                            | 14,689                                           | 20,204                 | 7,648                  | -                         | -                      | -                      | 14,689                           | 20,204                 | 7,648                  |
| Changes in financial assumptions                                  | 2,169                                            | ( 9,514 )              | ( 1,799 )              | -                         | -                      | -                      | 2,169                            | ( 9,514 )              | ( 1,799 )              |
| Return on plan asset (excluding amounts included in net interest) | -                                                | -                      | -                      | ( 41 )                    | ( 1,408 )              | 271                    | 41                               | 1,408                  | ( 271 )                |
|                                                                   | <u>16,858</u>                                    | <u>10,690</u>          | <u>5,849</u>           | <u>( 41 )</u>             | <u>( 1,408 )</u>       | <u>271</u>             | <u>16,899</u>                    | <u>12,098</u>          | <u>5,578</u>           |
| <b>Others:</b>                                                    |                                                  |                        |                        |                           |                        |                        |                                  |                        |                        |
| Contributions                                                     | -                                                | -                      | -                      | 25,654                    | 29,573                 | 5,465                  | ( 25,654 )                       | ( 29,573 )             | ( 5,465 )              |
| <b>Balance at end of year</b>                                     | <b><u>P 97,950</u></b>                           | <b><u>P 69,602</u></b> | <b><u>P 50,485</u></b> | <b><u>P 78,418</u></b>    | <b><u>P 48,209</u></b> | <b><u>P 18,091</u></b> | <b><u>P 19,532</u></b>           | <b><u>P 21,393</u></b> | <b><u>P 32,394</u></b> |

The current service cost amounting to P6,249, P5,428 and P5,094 in 2019, 2018 and 2017, respectively, is presented as part of Salaries and employee benefits under Other Operating Expenses section in the consolidated statements of comprehensive income (see Notes 20 and 22.1).

The net interest expense amounting to P645, P1,046 and P1,235 in 2019, 2018 and 2017, respectively, is included in Finance Costs account in the consolidated statements of comprehensive income (see Note 21.1).

Amounts recognized in consolidated other comprehensive income were included within items that will not be reclassified to consolidated profit or loss.

As of December 31, 2019 and 2018, net retirement liabilities recognized under Retirement Benefit Liability account in the consolidated statements of financial position amounted to P19,532 and P21,393, respectively.

The carrying amount of the Group's retirement fund approximate fair values as of December 31, 2019 and 2018.

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below in percentages:

|                               | <u>2019</u>          | <u>2018</u>   |
|-------------------------------|----------------------|---------------|
| Interest in pooled funds:     |                      |               |
| Fixed-income portfolio (FIP)  | <b>62.5%</b>         | 76.5%         |
| Stock trading portfolio (STP) | <b>18.0%</b>         | 23.3%         |
| Others                        | <b>19.5%</b>         | 0.2%          |
|                               | <u><b>100.0%</b></u> | <u>100.0%</u> |

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

(c) *Interest in Pooled Funds*

Investment in pooled funds were established mainly to put together all the retirement funds of the SMC Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The plan's interests in the net assets of the pooled funds were 1.36% and 0.86% of FIP and 1.36% and 0.57% of STP as of December 31, 2019 and 2018, respectively. Investment income and expense are allocated to the plan based on its pro-rata share in net assets of the pooled funds.

Investments in FIP consist of investments in money market placements, government securities, corporate notes and convertible preferred shares of stock, acquired to match the obligation of the retirement plan.

Investments in STP consist mainly of investments in shares of stock of publicly-listed companies that are carried at fair value based on the closing quoted market prices obtained from the PSE as at the end of the statement of net asset available for plan benefits dates.

Plan assets include shares of stock and debt securities issued by public entities within SMC Group, as disclosed in Note 24(e).

(d) *Others*

Others include the Retirement Plan's cash and cash equivalents which earns interest.

The plan assets earned a return of P4,555, P545 and P1,033 in 2019, 2018 and 2017, respectively.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

In determining the amounts of the retirement benefit obligation, the following significant actuarial assumptions were used:

|                                    | <u>2019</u> | <u>2018</u> |
|------------------------------------|-------------|-------------|
| Discount rates                     | <b>5.2%</b> | 7.5%        |
| Expected rates of salary increases | <b>5.0%</b> | 7.0%        |

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 55 is 23 and 25 years for both males and females in December 31, 2019 and 2018, respectively. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(e) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

i. *Investment and Interest Rate Risks*

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan comprises of investments in STP and FIP. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

ii. *Longevity and Salary Risks*

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(f) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

i. *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the DBO as of December 31, 2019 and 2018:

|                                 | <u>Impact on Retirement Benefit Liability</u> |                      |                             |
|---------------------------------|-----------------------------------------------|----------------------|-----------------------------|
|                                 | <u>Change in Assumption</u>                   | <u>Discount Rate</u> | <u>Salary Increase Rate</u> |
| <b><u>December 31, 2019</u></b> |                                               |                      |                             |
| Decrease in assumption          | +8.7%/-7.6%                                   | P                    | 8,485 (P 7,456)             |
| Increase in assumption          | -7.5%/+8.6%                                   | (                    | 7,374) 8,420                |
| <b><u>December 31, 2018</u></b> |                                               |                      |                             |
| Decrease in assumption          | +9.0%/-7.9%                                   | P                    | 6,241 (P 5,515)             |
| Increase in assumption          | -7.8%/+8.9%                                   | (                    | 5,442) 6,212                |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the DBO as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the post-employment DBO liability recognized in the consolidated statements of financial position.

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

ii. *Asset-liability Matching Strategies*

The Retirement Plan Trustee has no specific matching strategy between the retirement fund assets and the defined benefit liabilities under the Plan. However, the investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

The largest portion of assets as of December 31, 2019 and 2018 is invested in FIP which consists of money market placements, government securities, corporate notes and convertible preferred shares of stock. The Group believes that these securities offer a good return over the long term with an acceptable level of risk.

There has been no change in the Group's strategies to manage its risks from previous periods.

iii. *Funding Arrangements*

The plan is currently underfunded by P19,532 based on the latest actuarial valuation. There are no minimum funding requirement in the country.

The maturity profile of undiscounted expected benefits payments from the plan follows:

|                                  | <u>2019</u>    |   | <u>2018</u> |
|----------------------------------|----------------|---|-------------|
| Within one year                  | <b>P 4,103</b> | P | 1,667       |
| More than one year to five years | <b>43,589</b>  |   | 10,320      |
| More than five years             | <b>51,207</b>  |   | 61,496      |

The weighted average duration of the DBO at the end of the reporting period is eight years.

## 23. INCOME TAXES

The major components of tax expense (benefit) reported in the consolidated statements of comprehensive income are as follows for the years ended December 31:

|                                                 | <u>2019</u>             | 2018<br>(As Restated –<br>see Note 25.5) | 2017<br>(As Restated –<br>see Note 25.5) |
|-------------------------------------------------|-------------------------|------------------------------------------|------------------------------------------|
| <i>Reported in profit or loss:</i>              |                         |                                          |                                          |
| Current tax expense                             | <b>P 46,433</b>         | P 56,020                                 | P 126,971                                |
| Deferred tax expense (benefit)                  | <b>(41,945)</b>         | (59,293)                                 | 108,627                                  |
|                                                 | <b><u>P 4,488</u></b>   | <b><u>(P 3,273)</u></b>                  | <b><u>P 235,598</u></b>                  |
| <i>Reported in other comprehensive income –</i> |                         |                                          |                                          |
| Deferred tax benefit                            | <b><u>(P 5,070)</u></b> | <b><u>(P 2,751)</u></b>                  | <b><u>(P 1,404)</u></b>                  |

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in consolidated profit or loss (shown as percentages) is as follows:

|                                                         | <u>2019</u>          | 2018<br>(As Restated –<br>see Note 25.5) | 2017<br>(As Restated –<br>see Note 25.5) |
|---------------------------------------------------------|----------------------|------------------------------------------|------------------------------------------|
| Tax on pretax profit                                    | <b>30.00%</b>        | 30.00%                                   | 30.00%                                   |
| Income subjected to lower<br>income tax rates           | ( <b>3.73%</b> )     | ( 18.97%)                                | ( 0.24%)                                 |
| Tax effects of:                                         |                      |                                          |                                          |
| Unrecognized deferred tax assets                        | <b>272.71%</b>       | 24.48%                                   | 8.56%                                    |
| Nontaxable income                                       | ( <b>27.96%</b> )    | ( 20.09%)                                | ( 4.47%)                                 |
| Application of NOLCO                                    | ( <b>17.86%</b> )    | 8.91%                                    | -                                        |
| Nondeductible expenses                                  | <b>135.47%</b>       | 8.52%                                    | 2.04%                                    |
| Share in profit of associates                           | ( <b>384.25%</b> )   | ( 6.21%)                                 | ( 15.71%)                                |
| Expiration of excess MCIT                               | <b>0.72%</b>         | 0.11%                                    | -                                        |
| Reversal of previously<br>recognized deferred tax asset | -                    | -                                        | 16.86%                                   |
| Others                                                  | <u><b>12.96%</b></u> | <u>( 27.91%)</u>                         | <u>1.03%</u>                             |
|                                                         | <u><b>18.06%</b></u> | <u>( 1.16%)</u>                          | <u>38.07%</u>                            |

The deferred tax assets and liabilities of the Group as of December 31 relates to the following:

|                                                                | <u>2019</u>            | 2018<br>(As Restated –<br>see Note 25.5) |
|----------------------------------------------------------------|------------------------|------------------------------------------|
| Unrealized fair value gain on<br>investment property           | (P <b>106,150</b> )    | (P 106,150)                              |
| NOLCO                                                          | <b>78,386</b>          | 21,493                                   |
| Allowance for impairment of receivables<br>and equity advances | <b>70,183</b>          | 65,512                                   |
| Unamortized capitalized interest                               | ( <b>63,904</b> )      | ( 31,287)                                |
| Finance lease liabilities                                      | <b>42,587</b>          | -                                        |
| Unearned rentals                                               | <b>38,045</b>          | 29,448                                   |
| Fair value adjustment on<br>repossessed inventories            | ( <b>31,773</b> )      | ( 34,077)                                |
| Finance lease receivables                                      | ( <b>23,180</b> )      | -                                        |
| Real estate sales                                              | ( <b>18,065</b> )      | ( 29,734)                                |
| Retirement benefits                                            | <b>17,493</b>          | 13,634                                   |
| Right-of-use asset                                             | ( <b>14,885</b> )      | -                                        |
| MCIT                                                           | <b>1,990</b>           | 17,574                                   |
| Unrealized foreign currency losses - net                       | <b>1,690</b>           | 1,629                                    |
| Provision for loss on contingent liability                     | <b>1,369</b>           | 1,369                                    |
| Fair value gain on financial assets at FVOCI                   | <b>1,106</b>           | 1,106                                    |
| Other expenses                                                 | <u><b>21,113</b></u>   | <u>14,485</u>                            |
|                                                                | <u><b>P 16,005</b></u> | <u>(P 34,998)</u>                        |



The above amounts are reported in the consolidated statements of financial position as follows:

|                          | <u>2019</u>            | 2018<br>(As Restated –<br>see Note 25.5) |
|--------------------------|------------------------|------------------------------------------|
| Deferred tax assets      | <b>P 85,385</b>        | P 28,371                                 |
| Deferred tax liabilities | <b>( 69,380)</b>       | ( 63,369)                                |
|                          | <b><u>P 16,005</u></b> | <b><u>(P 34,998)</u></b>                 |

The components of net deferred tax expense (benefit) reported in the consolidated statements of comprehensive income are as follows:

|                                                             | <u>Profit or loss</u>    |                          |                         | <u>Other comprehensive income</u> |                         |                         |
|-------------------------------------------------------------|--------------------------|--------------------------|-------------------------|-----------------------------------|-------------------------|-------------------------|
|                                                             | <u>2019</u>              | 2018                     | 2017                    | <u>2019</u>                       | 2018                    | 2017                    |
| NOLCO                                                       | <b>(P 56,893)</b>        | (P 14,654)               | P 117,334               | <b>P -</b>                        | P -                     | P -                     |
| Unamortized capitalized interest                            | <b>32,617</b>            | ( 109)                   | -                       | -                                 | -                       | -                       |
| MCIT                                                        | <b>15,584</b>            | ( 8,032)                 | 30,656                  | -                                 | -                       | -                       |
| Real estate sales                                           | <b>( 11,669)</b>         | ( 17,165)                | 2,530                   | -                                 | -                       | -                       |
| Unearned rentals                                            | <b>( 8,597)</b>          | ( 1,918)                 | ( 1,947)                | -                                 | -                       | -                       |
| Allowance for impairment of receivables and equity advances | <b>( 4,671)</b>          | ( 16,325)                | ( 28,913)               | -                                 | -                       | -                       |
| Lease liabilities                                           | <b>3,796</b>             | -                        | -                       | -                                 | -                       | -                       |
| Fair value adjustment on repossessed inventories            | <b>( 2,304)</b>          | 4,583                    | -                       | -                                 | -                       | -                       |
| Right-of-use asset                                          | <b>( 2,170)</b>          | -                        | -                       | -                                 | -                       | -                       |
| Finance lease receivables                                   | <b>( 2,160)</b>          | -                        | -                       | -                                 | -                       | -                       |
| Retirement benefit liability                                | <b>1,211</b>             | 508                      | ( 272)                  | <b>( 5,070)</b>                   | ( 3,629)                | ( 1,674)                |
| Unrealized foreign currency loss (gain)                     | <b>( 61)</b>             | ( 47)                    | ( 53)                   | -                                 | -                       | -                       |
| Fair value gain on financial assets at FVOCI                | -                        | -                        | -                       | -                                 | 878                     | -                       |
| Decline in market value of AFS financial assets             | -                        | ( 652)                   | 161                     | -                                 | -                       | 270                     |
| Other expenses                                              | <b>( 6,628)</b>          | ( 5,482)                 | ( 10,869)               | -                                 | -                       | -                       |
| Net Deferred Tax Expense (Benefit)                          | <b><u>(P 41,945)</u></b> | <b><u>(P 59,293)</u></b> | <b><u>P 108,627</u></b> | <b><u>(P 5,070)</u></b>           | <b><u>(P 2,751)</u></b> | <b><u>(P 1,404)</u></b> |

Upon effectivity of PFRS 16, the Group recognized right-of-use asset, finance receivables and finance liabilities which are not acknowledged for tax purposes; hence, the net tax portion for these items are properly accounted for as part of the Group's deferred tax assets and liabilities. Accordingly, the Group recognized net deferred tax assets amounting to P3,989 as of January 1, 2019 [see Note 2.2(a)(i)].

Net deferred tax assets of the Group are not allowed to be offset against net deferred tax liabilities of other subsidiaries, or vice versa, for purposes of consolidation.

No deferred tax has been recognized on the Group's accumulated share in net profit and other comprehensive income (loss) of associates in all the years presented. The Group has no liability for tax should the amounts be declared as dividends since dividend income received from domestic corporations by a domestic corporation is not subject to income tax.

For the years ended December 31, 2019, 2018 and 2017, most of the operating subsidiaries incurred MCIT as it exceeded their respective RCIT. MCIT is equivalent to 2% of gross income, as defined in the tax regulations.

In 2019, 2018 and 2017, the Group opted to claim itemized deductions in computing their respective income tax due.

Presented below are the details of the Group's NOLCO and MCIT.

| Year<br>Incurred/Paid | Carryforward Benefits<br>Up To |          | NOLCO                 |          | MCIT                |
|-----------------------|--------------------------------|----------|-----------------------|----------|---------------------|
| 2019                  | December 31, 2022              | P        | 361,587               | P        | 1,497               |
| 2018                  | December 31, 2021              | P        | 295,406               | P        | 177                 |
| 2017                  | December 31, 2020              |          | <u>184,781</u>        |          | <u>343</u>          |
|                       |                                | <b>P</b> | <b><u>841,774</u></b> | <b>P</b> | <b><u>2,017</u></b> |

For financial reporting purposes, no deferred tax assets relating to NOLCO and MCIT were generally recognized by the subsidiaries. Management believes that there is no assurance that their related tax benefits will be realized by these subsidiaries within the prescribed period. The details of unrecognized deferred tax assets are as follows:

|                                                                | 2019                    |          | 2018                  |
|----------------------------------------------------------------|-------------------------|----------|-----------------------|
| NOLCO                                                          | <b>P 174,146</b>        | P        | 176,679               |
| MCIT                                                           | <b>27</b>               |          | 24                    |
| Allowance for impairment of<br>receivables and equity advances | <u>-</u>                |          | <u>423</u>            |
|                                                                | <b><u>P 174,173</u></b> | <b>P</b> | <b><u>177,126</u></b> |

## 24. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

The Group's related parties include intermediate parent company, associates, other entities under common control and the Group's key management and retirement fund plan as described below and in the succeeding pages. Related parties under common control are subsidiaries and associates of SMC through direct or indirect equity ownership.

The following are the transactions with related parties.

| Related Parties                | Notes       | Year | Revenue<br>From<br>Related<br>Parties | Purchases<br>From<br>Related<br>Parties | Amounts<br>Owed by<br>Related<br>Parties | Amounts<br>Owed to<br>Related<br>Parties | Terms                   | Conditions           |
|--------------------------------|-------------|------|---------------------------------------|-----------------------------------------|------------------------------------------|------------------------------------------|-------------------------|----------------------|
| Intermediate<br>Parent Company | 7, 17       | 2019 | <b>P 123,469</b>                      | <b>P 65,516</b>                         | <b>P 8,102</b>                           | <b>P 88,818</b>                          | On demand or            | Secured by advance   |
|                                |             | 2018 | 117,115                               | 63,185                                  | P 27,605                                 | 129,426                                  | 30 days from the        | rentals and security |
|                                |             | 2017 | 113,459                               | 56,913                                  | 12,267                                   | 157,139                                  | date of billing;        | deposits, and        |
|                                |             |      |                                       |                                         |                                          |                                          | Noninterest-bearing     | unsecured            |
| Under Common<br>Control        | 4, 7, 8, 17 | 2019 | <b>543,758</b>                        | <b>45,106</b>                           | <b>120,531</b>                           | <b>194,385</b>                           | On demand or            | Secured by advance   |
|                                |             | 2018 | 255,874                               | 44,962                                  | 80,070                                   | 135,016                                  | 30 days from the        | rentals and security |
|                                |             | 2017 | 543,979                               | 25,994                                  | 171,333                                  | 120,048                                  | date of billing or      | deposits, and        |
|                                |             |      |                                       |                                         |                                          |                                          | less than 2 to 4 years; | unsecured            |
|                                |             |      |                                       |                                         |                                          |                                          | Interest-bearing        |                      |
| Associates                     | 21.2        | 2019 | <b>411</b>                            | -                                       | <b>225,773</b>                           | -                                        | On demand;              | Secured              |
|                                |             | 2018 | 393                                   | -                                       | 206,995                                  | -                                        | Interest-bearing        |                      |
|                                |             | 2017 | <u>210</u>                            | <u>-</u>                                | <u>183,239</u>                           | <u>-</u>                                 |                         |                      |
|                                |             | 2019 | <b><u>P 667,638</u></b>               | <b><u>P 110,622</u></b>                 | <b><u>P 354,406</u></b>                  | <b><u>P 283,203</u></b>                  |                         |                      |
|                                |             | 2018 | <u>P 373,382</u>                      | <u>P 108,147</u>                        | <u>P 314,670</u>                         | <u>P 264,442</u>                         |                         |                      |
|                                |             | 2017 | <u>P 657,648</u>                      | <u>P 82,907</u>                         | <u>P 366,839</u>                         | <u>P 277,187</u>                         |                         |                      |

- (a) Revenue from related parties consist of real estate sales, lease income, management and other administrative fees, room revenues, sale of food and beverages and interest income from deposits with the Group's associate.
- (b) Purchases from related parties consist of management and other administrative services, technical services and administration of the construction of the Group's real estate projects and implementation of computer software.
- (c) Amounts owed by related parties consist of contract receivables, rental receivables, accounts receivables, due from related parties and deposits. Contract receivables are payable in cash based on monthly amortization schedule. Rental receivables from lease of properties are payable in cash within 30 days from the date of billing. Accounts receivables and cash advances are payable in cash on demand.
- (d) Amounts owed to related parties consist of accounts payable, due to related parties, advance rentals and security deposits. These are all payable in cash. Leases to related parties are secured with advance rentals, which are applied at the end of the lease term. Security deposits are refundable in cash at the end of the lease term.
- (e) The Group maintains a partially funded, noncontributory post-employment defined benefit plan that is being administered by the BOT of the Group's Retirement Plan. The Group's plan assets includes shares of stock and debt securities issued by public entities within SMC Group which accounts for 1.09% and 0.41% of the STP and 0.92% and 0.65% of the total FIP as of December 31, 2019 and 2018, respectively. The details of the retirement plan are presented in Note 21.2. The Group has no transaction with the retirement plan other than contribution and benefit payments.
- (f) The compensation of key management personnel of the Group is broken down as follows:

|                              | <u>2019</u>            |   | <u>2018</u>   |   | <u>2017</u>   |
|------------------------------|------------------------|---|---------------|---|---------------|
| Short-term employee benefits | <b>P 42,495</b>        | P | 42,910        | P | 36,388        |
| Post-employment benefit      | <u>2,980</u>           |   | <u>3,107</u>  |   | <u>3,101</u>  |
|                              | <b><u>P 45,475</u></b> | P | <u>46,017</u> | P | <u>39,489</u> |

## 25. EQUITY

### 25.1 Capital Stock

The Group's capital stock consists of:

|                               | <u>Shares</u>        |                      | <u>Amount</u>       |                   |
|-------------------------------|----------------------|----------------------|---------------------|-------------------|
|                               | <u>2019</u>          | <u>2018</u>          | <u>2019</u>         | <u>2018</u>       |
| Capital stock – P10 par value |                      |                      |                     |                   |
| Authorized                    | <u>1,500,000,000</u> | <u>1,500,000,000</u> | <b>P 15,000,000</b> | <u>15,000,000</u> |
| Issued and outstanding:       |                      |                      |                     |                   |
| Balance at beginning of year  | 662,495,940          | 599,995,940          | <b>P 6,624,959</b>  | P 5,999,959       |
| Issued during the year        | <u>57,500,000</u>    | <u>62,500,000</u>    | <u>575,000</u>      | <u>625,000</u>    |
| Balance at end of year        | 719,995,940          | 662,495,940          | 7,199,959           | 6,624,959         |
| Treasury stock – at cost      | ( 315,771)           | ( 315,771)           | ( 9,515)            | ( 9,515)          |
| Total outstanding             | <u>719,680,169</u>   | <u>662,180,169</u>   | <b>P 7,190,444</b>  | <u>6,615,444</u>  |

On January 30, 1998, San Miguel Properties Philippines, Inc. (SMPPPI) and Monterey Farms Corporation (MFC) executed a merger, which made MFC as the surviving entity. Prior to the merger, the shares of MFC totaling 115,919,850 was already listed and approved by PSE on January 30, 1986. These shares were initially issued at an offer price of P10 per share. There were no additional shares listed subsequent to the initial listing. On July 14, 1998, the SEC approved the change of corporate name from MFC to San Miguel Properties, Inc.

On January 3, 2012, the PSE issued Memorandum Circular No. 2012-0003, announcing the effectivity of the Amended Rule on Minimum Public Ownership. Under this memorandum, all listed companies are required to maintain a minimum public ownership of 10% of all issued and outstanding shares. On December 28, 2012, the Group received a letter from PSE imposing trading suspension until June 30, 2013 due to failure to comply with the minimum public ownership requirement.

On February 5, 2013, the BOD approved the filing of the petition for voluntary delisting and conduct of a tender for the acquisition of common shares held by the minority shares. On March 4, 2013, the Group filed with the PSE the petition for voluntary delisting with May 6, 2013 as the effective date of the delisting of the Group's common shares from the PSE. On April 25, 2013, the PSE approved the voluntary delisting of the Group following the completed tender offer made to acquire 1,072 shares from minority shareholders of which 309 shares was transferred and recorded as treasury shares for an equivalent transaction value of P41.

On June 29, 2017, SMC has agreed to subscribe 27,985,000 additional shares of the Group out of the 928,304,831 unissued shares from the approved increase of authorized capital stock in 2016. Total additions to Capital Stock and Additional Paid-in Capital accounts arising from the share subscription by the Intermediate Parent Company amounted to P279,850 and P278,451, respectively. Total costs directly related to the issuance of shares amounting to P1,399 were deducted from the Additional Paid-in Capital account.

On February 19, 2018, SMC subscribed additional shares of the Group from the unsubscribed portion of the existing authorized capital stock in the amount of P1,250,000 divided into 62,500,000 shares with par value of P10 per share. Total additions to Capital Stock and Additional Paid-in Capital accounts amounted to P625,000 and P618,750, respectively. Total costs directly related to the issuance of shares amounting to P6,250 were deducted from the Additional Paid-in Capital account.

On December 23, 2019, the Group issued additional shares to SMC from the unsubscribed portion of the existing authorized capital stock amounting to P1,150,000 divided into 57,500,000 shares with par value of P10 per share. This share issuance consequently resulted to total additions to capital stock and additional paid-in capital accounts amounting to P575,000 and P569,250, respectively. Total costs directly related to the issuance of shares amounting to P5,750 were deducted from the additional paid-in capital account.

The Group has more than 200 stockholders holding shares of the Group's capital stock as of December 31, 2019 and 2018. The Group is still qualified to be a public corporation based on its quasi-public registration with the SEC.

As of December 31, 2019 and 2018, the Group has 75 stockholders owning 100 or more shares each of the Group's capital stock.

### ***25.2 Restriction on Retained Earnings***

Retained earnings is restricted for dividend declaration in the amount of P9,515 equivalent to the cost of the 315,771 shares held in treasury as of December 31, 2019 and 2018, and the accumulated share in profit of associates amounting to P1,971,694 and P1,680,570 for the years then ended.

### ***25.3 Appropriation of Retained Earnings***

In 2011, the BOD approved the appropriation of P5,000,000 of the Group's retained earnings for its existing and pipeline real estate projects. On March 14, 2017, the Group's BOD reversed the appropriation amounting to P5,000,000 as the purpose for which such appropriations were made has been completed. Also on the same date, the Group's BOD approved the appropriation of P4,500,000 of the Group's retained earnings for the development of Caticlan project from 2017 to 2022.

### ***25.4 Other Reserves***

In 2018 and 2016, the excess of the total consideration and the acquired interest of Geosolutions and Zee2 Resources amounting to P10,216 and P182,099, respectively, is presented as part of Other Reserves in the consolidated statements of changes in equity. The total consideration paid in the acquisition in 2018 and 2016 amounted to P229,500 and P290,700, respectively.

In 2010, GSIS exercised the put option which gave the Group 100% equity ownership interest in SMPI Flagship. This resulted in the recognition of Other Reserves that pertain to the excess of the exercise price of the put option paid by the Group and its corresponding share in the additional net assets of SMPI Flagship amounting to P88,200.

### ***25.5 Prior Period Restatements***

In 2019, the Philippine Interpretations Committee (PIC) released a clarification regarding eligibility of capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development for entities which recognize revenue over time. Based on such clarification, the PIC concluded that inventory for unsold units under construction, which is ready for its intended sale in its current condition, is not a qualifying asset based on the definition provided by PAS 23. Accordingly, any incurred borrowing costs related to the construction of real estate inventories are not capitalized as part of real estate inventories and are to be recognized directly as an expense in the statement of comprehensive income.

Based on such clarification, the Group made retrospective restatements to certain accounts in its financial statements as of December 31, 2018 and in the corresponding figures as of January 1, 2018 to conform to the current year presentation. Accordingly, the Group presented a third statement of financial position as of January 1, 2018 without the related notes, except for disclosures required under PAS 8.

In addition, the Group made a reclassification in its 2018 consolidated statement of financial position from the Investment Property account to the Real Estate Projects account to conform with the current year presentation.

The effects of the restatement in the statement of financial position as of December 31, 2018 and the corresponding figures as of January 1, 2018 are summarized below:

|                                  | <u>Notes</u> | <u>As Previously<br/>Reported*</u> | <u>Effect of<br/>Restatement</u> | <u>As Restated</u> |
|----------------------------------|--------------|------------------------------------|----------------------------------|--------------------|
| <u>As of December 31, 2018</u>   |              |                                    |                                  |                    |
| <i>Change in assets:</i>         |              |                                    |                                  |                    |
| Real estate projects             | 8            | P 1,846,775                        | 137,306                          | 1,984,081          |
| Investment properties            | 12           | 8,043,492                          | ( 197,940)                       | 7,845,552          |
| <i>Change in liabilities –</i>   |              |                                    |                                  |                    |
| Deferred tax liabilities         | 23           | ( 85,512)                          | 22,143                           | ( 63,369)          |
| Net effect on net assets         |              |                                    | ( P 38,491)                      |                    |
| <i>Changes in equity:</i>        |              |                                    |                                  |                    |
| Unappropriated retained earnings |              | ( P 3,976,329)                     | P 40,662                         | ( P 3,935,667)     |
| Noncontrolling interest          |              | ( 362,617)                         | ( 2,171)                         | ( 364,788)         |
| Net effect on net assets         |              |                                    | ( P 38,491)                      |                    |
| <u>As of January 1, 2018*</u>    |              |                                    |                                  |                    |
| <i>Change in assets –</i>        |              |                                    |                                  |                    |
| Real estate projects             | 8            | P 2,150,404                        | ( 65,695)                        | 2,084,709          |
| <i>Change in liabilities –</i>   |              |                                    |                                  |                    |
| Deferred tax liabilities         | 23           | ( 132,646)                         | 24,184                           | ( 108,462)         |
| Net effect on net assets         |              |                                    | ( P 41,511)                      |                    |
| <i>Changes in equity:</i>        |              |                                    |                                  |                    |
| Unappropriated retained earnings |              | ( P 3,682,794)                     | P 43,682                         | ( P 3,639,112)     |
| Noncontrolling interest          |              | ( 368,391)                         | ( 2,171)                         | ( 370,562)         |
| Net effect on net assets         |              |                                    | ( P 41,511)                      |                    |

\* Balances as of January 1, 2018 presented above are after the effects of the adoption of PFRS 15 in 2018.

The effects of prior period adjustments on certain line items in the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017 are summarized below.

|                          | <u>Notes</u> | <u>As Previously<br/>Reported</u> | <u>Effect of<br/>Restatement</u> | <u>As Restated</u> |
|--------------------------|--------------|-----------------------------------|----------------------------------|--------------------|
| <u>2018</u>              |              |                                   |                                  |                    |
| Cost of real estate sold | 19           | ( P 432,433)                      | 15,696                           | ( 416,737)         |
| Finance costs            | 21           | ( 479,630)                        | ( 15,732)                        | ( 495,362)         |
| Tax benefit (expense)    | 23           | 5,315                             | ( 2,042)                         | 3,273              |
|                          |              |                                   | P 2,078                          |                    |
| <u>2017</u>              |              |                                   |                                  |                    |
| Cost of real estate sold | 19           | ( P 674,183)                      | 23,474                           | ( 650,709)         |
| Finance costs            | 21           | ( 317,201)                        | ( 28,921)                        | ( 346,122)         |
| Tax benefit (expense)    | 23           | ( 237,232)                        | 1,634                            | ( 235,598)         |
|                          |              |                                   | ( P 3,813)                       |                    |

The effects of prior period adjustments on certain line items in the statement of cash flows for the years ended December 31, 2018 and 2017 are summarized below.

|                                  | <u>Note</u> | <u>As Previously<br/>Reported</u> | <u>Effect of<br/>Restatement</u> | <u>As Restated</u> |
|----------------------------------|-------------|-----------------------------------|----------------------------------|--------------------|
| <u>As of December 31, 2018</u>   |             |                                   |                                  |                    |
| Profit before tax                |             | P 282,446                         | ( 38 )                           | P 282,408          |
| Adjustments for interest expense | 21.1        | 406,211                           | 15,734                           | 421,945            |
| Decrease in real estate projects |             | <u>72,418</u>                     | <u>( 15,696 )</u>                | <u>56,722</u>      |
|                                  |             |                                   | <u><b>P -</b></u>                |                    |
| <u>As of December 31, 2017</u>   |             |                                   |                                  |                    |
| Profit before tax                |             | P 624,360                         | ( 5,447 )                        | P 618,913          |
| Adjustments for interest expense | 21.1        | 273,231                           | 28,921                           | 302,152            |
| Decrease in real estate projects |             | <u>403,077</u>                    | <u>( 23,474 )</u>                | <u>379,603</u>     |
|                                  |             |                                   | <u><b>P -</b></u>                |                    |

The effect of this reclassification on the PAS 23 adjustment of interest expense is presented as part of the prior period restatements above in the consolidated statement of comprehensive income for the year ended December 31, 2018

## 26. EARNINGS PER SHARE

Basic and diluted earnings per share amounts were computed as follows:

|                                                                                         | <u>2019</u>           | <u>2018<br/>(As Restated –<br/>see Note 25.5)</u> | <u>2017<br/>(As Restated –<br/>see Note 25.5)</u> |
|-----------------------------------------------------------------------------------------|-----------------------|---------------------------------------------------|---------------------------------------------------|
| Net profit attributable to owners of the parent company for the year                    | <b>P 24,664</b>       | P 291,455                                         | P 389,020                                         |
| Divided by weighted average number of outstanding common shares ( <i>in thousands</i> ) | <u><b>662,180</b></u> | <u>651,764</u>                                    | <u>585,688</u>                                    |
| Earnings per share – basic and diluted                                                  | <u><b>P 0.04</b></u>  | <u>P 0.45</u>                                     | <u>P 0.66</u>                                     |

The weighted average number of shares as of December 31, 2019 is computed as follows:

|                                               | <u>Number<br/>of Shares</u> | <u>Months<br/>Outstanding</u> | <u>Weighted<br/>Number of<br/>Shares</u> |
|-----------------------------------------------|-----------------------------|-------------------------------|------------------------------------------|
| Balance at beginning of year                  | 662,180,169                 | 12                            | 7,946,162,028                            |
| Share issuance in December                    | <u>57,500,000</u>           | -                             | <u>-</u>                                 |
| Balance at end of year                        | <u>719,680,169</u>          |                               | 7,946,162,028                            |
| Divided by                                    |                             |                               | <u>12</u>                                |
| Weighted average number of shares outstanding |                             |                               | <u><b>662,180,169</b></u>                |

Diluted earnings per share equal the basic earnings per share since the Group does not have dilutive shares as of December 31, 2019, 2018 and 2017.

## 27. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

### 27.1 Finance Lease – Group as Lessor

Prior to 2019, the Group had several long-term subleases with escalation clauses which are classified as operating leases as those did not meet the qualifications required to be classified as finance lease.

Upon the effectivity of PFRS 16, these subleases met the requirements to be considered as finance lease. Future minimum lease payments receivable (MLPR) under these leases together with the PV of net minimum lease payments receivable (NMLPR) follow:

|                                                | 2019               |                    |
|------------------------------------------------|--------------------|--------------------|
|                                                | <u>Future MLPR</u> | <u>PV of NMLPR</u> |
| Within one year                                | P 14,482           | P 13,839           |
| After one year but not more than two years     | 14,510             | 12,743             |
| After two years but not more than three years  | 14,607             | 11,788             |
| After three years but not more than four years | 15,052             | 11,164             |
| After four years but not more than five years  | 15,512             | 10,575             |
| More than five years                           | <u>29,740</u>      | <u>17,157</u>      |
| Total MLP                                      | 103,903            | 77,266             |
| Amounts representing finance charges           | ( <u>26,637</u> )  | <u>-</u>           |
| Present value of MLPR                          | <u>P 77,266</u>    | <u>P 77,266</u>    |

The net investment relating to this finance lease is presented as Finance lease receivables under Receivables account in the 2019 consolidated statement of financial position (see Note 7). Interest income recognized on the net investment in finance leases amounting to P7,070 is presented as part of Finance Income in the 2019 consolidated statement of comprehensive income (see Note 21.2).

### 27.2 Operating Leases – Group as Lessor

The Group is a lessor under operating leases covering certain real estate properties. The leases have terms ranging from one to five years, with renewal options, and include annual escalation rates of 3% to 10%.



The future minimum lease collections receivable under these operating leases as of December 31 are presented below.

|                                              | <u>2019</u>               | <u>2018</u>             |
|----------------------------------------------|---------------------------|-------------------------|
| Within one year                              | <b>P 443,300</b>          | P 301,475               |
| After one year but not more than five years  | <b>1,031,935</b>          | 116,438                 |
| After five years but not more than ten years | <b>1,444,977</b>          | 40,691                  |
| More than ten years                          | <b><u>4,424,514</u></b>   | <u>-</u>                |
|                                              | <b><u>P 7,344,726</u></b> | <b><u>P 458,604</u></b> |

The total rentals from these operating leases amounted to P404,335, P362,172 and P348,013 in 2019, 2018 and 2017, respectively, and presented as Rental Income account in the consolidated statements of comprehensive income.

### ***27.3 Operating Lease – Group as Lessee (2018)***

In 2018 and prior years, the Group is a lessee under an operating lease agreement covering a certain parcel of land and a building. The leases have terms of 10 years, with renewal options and includes annual escalation rate of 6%. Rental expense recorded in the Group's books amounted to P25, P24,771 and P24,768 in 2019, 2018 and 2017, respectively, and is presented as part of Cost of Rentals account and in the consolidated statements of comprehensive income (see Note 19).

The future minimum operating lease commitments under this agreement as of December 31, 2018 are as follows:

|                                              |                         |
|----------------------------------------------|-------------------------|
| Within one year                              | P 22,231                |
| After one year but not more than five years  | 100,536                 |
| After five years but not more than ten years | <u>84,150</u>           |
|                                              | <b><u>P 206,917</u></b> |

Rentals in 2019 pertain to expenses incurred for leases entered into by the Group with remaining lease term of less than 12 months or leases of low value assets, which are presented as part of Cost of Rentals account in the 2019 consolidated statement of comprehensive income.

### ***27.4 Legal Claims***

There are pending claims and legal actions filed by the Group or against the Group arising from the normal course of business.

In 2007, a provision amounting to P4,564 in connection with Excel Unified's pending settlement of a dispute regarding a right of way in Wedgewoods was recognized. The provision remains outstanding as of the reporting periods and is presented as Provisions under Trade and Other Payables account in the consolidated statements of financial position (see Note 17). The Group's management, based on the advice of its legal counsels, believes that the recognized provision with regard to its legal case is reasonable and additional liabilities or losses, if any, that may arise from other claims will not have material effect on its consolidated financial statements.

### **27.5 Others**

There are other contingencies that arise in the normal course of business that are not recognized in the Group's consolidated financial statements. As of December 31, 2019 and 2018, the Group's management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Group's consolidated financial statements.

## **28. RISK MANAGEMENT OBJECTIVES AND POLICIES**

It is the Group's policy to ensure that capabilities exist for active and prudent management of its financial risks. The Group does not engage in any speculative derivative transactions. The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's principal financial instruments include non-derivative instruments which arise directly from its operations. The financial risks to which the Group is exposed to are described below and in the succeeding pages.

### **28.1 Market Risk**

#### *(a) Foreign Currency Risk*

There is no significant exposure to foreign currency risks since most of the Group's transactions are denominated in Philippine peso, which is its functional currency. The Group's financial asset denominated in foreign currency only pertains to cash in bank. However, the amount is insignificant to the consolidated financial statements as of December 31, 2019 and 2018. The Group has no financial liabilities denominated in foreign currency.

#### *(b) Interest Rate Sensitivity*

The Group's exposure to changes in interest rates relates primarily to the Group's interest-bearing loans and borrowings and cash and cash equivalents, which are subject to variable interest rates. All other financial assets and financial liabilities have fixed rates or are not subject to interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

In managing interest rate, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on consolidated earnings.

The table below illustrates the sensitivity of consolidated profit before tax for the years in regards to the Group's cash and cash equivalents and interest-bearing loans and borrowings. These percentages have been determined based on the average market volatility rates, using standard deviation, in the previous 12 months, estimated at 95% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at end of the reporting periods.

|                    | 2019                               |                             |  | 2018                               |                             |  | 2017                               |                             |  |
|--------------------|------------------------------------|-----------------------------|--|------------------------------------|-----------------------------|--|------------------------------------|-----------------------------|--|
|                    | Reasonably possible change in rate | Effect in profit before tax |  | Reasonably possible change in rate | Effect in profit before tax |  | Reasonably possible change in rate | Effect in profit before tax |  |
| Profit before tax: |                                    |                             |  |                                    |                             |  |                                    |                             |  |
| Net increase       | +0.53%                             | (P 39,467)                  |  | +0.56%                             | (P 37,912)                  |  | +0.14%                             | (P 12,122)                  |  |
| Net decrease       | -0.53%                             | 39,467                      |  | -0.56%                             | 37,912                      |  | -0.14%                             | 12,122                      |  |

(c) *Other Price Risk Sensitivity*

The Group's market price risk arises from its financial assets at FVOCI which is considered negligible as the amount of the assets, including the fair value changes, is not material to the consolidated financial statements. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investment.

## 28.2 Credit Risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of real estate are made to customers with appropriate credit history and has an internal mechanism to monitor the granting of credit and management of credit exposures. The Group has provided allowance for impairment on receivables, based on its assessment, for potential losses on credits extended. The Group's contract receivables are effectively collateralized by real estate titles, which are subject to rescission and repossession upon nonpayment after reasonable collection effort has been exerted by the Group. The Group's rental receivables, on the other hand, are effectively collateralized by security deposits and advance rentals which can be applied by the Group upon default of the lessee of its contracted rental payment. Other financial assets are not secured by any collateral or other credit enhancements, except for cash and cash equivalents.

The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments, net of the value of advance rentals, security deposits and collaterals, if any.

Generally, the maximum credit risk exposure of financial assets and contract assets is the carrying amount of the related assets as shown on the face of the consolidated statements of financial position as of December 31 (or in the detailed analysis provided in the notes to the financial statements), as summarized below and in the succeeding page.

|                                                       | Notes | 2019               | 2018               |
|-------------------------------------------------------|-------|--------------------|--------------------|
| Cash and cash equivalents                             | 6     | P 1,623,055        | P 796,982          |
| Receivables - net (excluding advances to contractors) | 7     | 549,477            | 523,087            |
| Contract assets                                       | 15.3  | <u>11,850</u>      | <u>62,145</u>      |
|                                                       |       | <u>P 2,184,382</u> | <u>P 1,382,214</u> |

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500 for every depositor per banking institution.

(b) *Receivables and Contract Assets*

The Group applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all receivables and contract assets.

The Group's contract receivables and contract assets relate to receivables from third parties and related parties arising from sale of real estate and undeveloped land. The Group uses credit loss rate approach to calculate ECL for contract receivables and contract assets. The management determined that there is no required ECL to be recognized on the Group's contract receivables and contract assets as it is secured to the extent of the fair value of the real properties sold since the title to the real estate properties remains with the Group until the contract assets or receivables are fully collected. Therefore, there is no expected loss given default as the recoverable amount from subsequent resale of the real estate is sufficient. The estimated fair value of the security enhancements held against contract assets and contract receivables are presented below:

|                      | <u>Gross Maximum<br/>Exposure</u> | <u>Fair Value of<br/>Collaterals</u> | <u>Net Exposure</u> | <u>Financial Effect<br/>of Collaterals</u> |
|----------------------|-----------------------------------|--------------------------------------|---------------------|--------------------------------------------|
| <b>2019</b>          |                                   |                                      |                     |                                            |
| Contract assets      | P 11,850                          | P 21,508                             | P -                 | P 11,850                                   |
| Contract receivables | <u>385,284</u>                    | <u>1,191,660</u>                     | <u>-</u>            | <u>385,284</u>                             |
|                      | <b><u>P 397,134</u></b>           | <b><u>P 1,213,168</u></b>            | <b><u>P -</u></b>   | <b><u>P 397,134</u></b>                    |
| <b>2018</b>          |                                   |                                      |                     |                                            |
| Contract assets      | P 62,145                          | P 78,020                             | P -                 | P 62,145                                   |
| Contract receivables | <u>414,065</u>                    | <u>1,035,295</u>                     | <u>-</u>            | <u>414,065</u>                             |
|                      | <b><u>P 476,210</u></b>           | <b><u>P 1,113,315</u></b>            | <b><u>P -</u></b>   | <b><u>P 476,210</u></b>                    |

ECL for the Group's accounts receivables and due from related parties, on the other hand, is determined based on the related parties' ability to repay the advances upon demand at the reporting date, taking into consideration historical defaults from the related parties.

Other components of Receivables such as accounts receivable, rental receivables and finance lease receivables are evaluated by the Group for impairment based on the available liquid assets and credit standing of the counterparties. Further, rental receivables are secured to the extent of advance rental and rental deposit received from the lessees.

In the process of applying PFRS 9, the Group have identified individually significant items on Receivables account which requires impairment. Prior to 2018, only impaired accounts with significant amount are subject to specific impairment test. Impaired accounts refer to those accounts that are considered credit-impaired, which were non-moving for more than three years, and all those accounts which the Group assessed to be uncollectible.

The Group's management considers that all the financial assets are not impaired, except those specifically provided with allowance for impairment, as of the end of the reporting periods.

### 28.3 Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objectives to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and, (d) to maintain an adequate time spread of refinancing maturities.

The maturity profile of the Group's financial liabilities (except lease liabilities – see Note 18.1) as of December 31, 2019 and 2018 based on contractual undiscounted payments is as follows:

|                          | <b>Current</b>             |                           | <b>Noncurrent</b>       |                               |
|--------------------------|----------------------------|---------------------------|-------------------------|-------------------------------|
|                          | <b>Within<br/>6 months</b> | <b>6 to 12<br/>months</b> | <b>1 to 3<br/>years</b> | <b>Later than<br/>3 years</b> |
| Loans and borrowings     | P 12,433,110               | P -                       | P -                     | P -                           |
| Trade and other payables | 1,023,265                  | 227,844                   | -                       | -                             |
| Rental deposits          | 73,299                     | 14,819                    | 5,244                   | 5,440                         |
| Due to related parties   | 33,357                     | -                         | -                       | -                             |
|                          | <b><u>P 13,563,031</u></b> | <b><u>P 242,663</u></b>   | <b><u>P 5,244</u></b>   | <b><u>P 5,440</u></b>         |

The maturity profile of the Group's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted payments is as follows:

|                          | <b>Current</b>             |                           | <b>Noncurrent</b>       |                               |
|--------------------------|----------------------------|---------------------------|-------------------------|-------------------------------|
|                          | <b>Within<br/>6 months</b> | <b>6 to 12<br/>months</b> | <b>1 to 3<br/>years</b> | <b>Later than<br/>3 years</b> |
| Loans and borrowings     | P 10,430,574               | P -                       | P -                     | P -                           |
| Trade and other payables | 727,656                    | 143,125                   | 11,152                  | -                             |
| Rental deposits          | 103,238                    | 10,247                    | 3,917                   | 6,431                         |
| Due to related parties   | 33,357                     | -                         | -                       | -                             |
|                          | <b><u>P 11,294,825</u></b> | <b><u>P 153,372</u></b>   | <b><u>P 15,069</u></b>  | <b><u>P 6,431</u></b>         |

The contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting period.

## 29. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 29.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

|                                                       |       | 2019                |                     | 2018                |                     |
|-------------------------------------------------------|-------|---------------------|---------------------|---------------------|---------------------|
|                                                       | Notes | Carrying Values     | Fair Values         | Carrying Values     | Fair Values         |
| <b>Financial assets</b>                               |       |                     |                     |                     |                     |
| Financial assets at amortized cost:                   |       |                     |                     |                     |                     |
| Cash and cash equivalents                             | 6     | P 1,623,055         | P 1,623,055         | P 796,982           | P 796,982           |
| Receivables – net (excluding advances to contractors) | 7     | 549,477             | 549,477             | 523,087             | 523,087             |
| Contract assets                                       | 15    | 11,850              | 11,850              | 62,145              | 62,145              |
| Financial asset at fair value –                       |       |                     |                     |                     |                     |
| Financial assets at FVOCI                             | 15    | 13,610              | 13,610              | 13,610              | 13,610              |
|                                                       |       | <u>P 2,197,992</u>  | <u>P 2,197,992</u>  | <u>P 1,395,824</u>  | <u>P 1,395,824</u>  |
| <b>Financial liabilities</b>                          |       |                     |                     |                     |                     |
| Financial liabilities at amortized cost:              |       |                     |                     |                     |                     |
| Loans and borrowings                                  | 16    | P 12,433,110        | P 12,433,110        | P 10,357,380        | P 10,357,380        |
| Trade and other payables                              | 17    | 1,251,109           | 1,251,109           | 881,933             | 881,933             |
| Lease liabilities                                     | 18    | 135,362             | 135,362             | -                   | -                   |
| Due to related parties                                | 24    | 33,357              | 33,357              | 33,357              | 33,357              |
| Rental deposits                                       | 24    | 98,802              | 98,802              | 123,833             | 123,833             |
|                                                       |       | <u>P 13,951,740</u> | <u>P 13,951,740</u> | <u>P 11,396,503</u> | <u>P 11,396,503</u> |

See Notes 2.5 and 2.13 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 28.

### 29.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set-off financial instruments in 2019 and 2018 and does not have relevant offsetting arrangements. Currently, all financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BODs and stockholders. As such, the Group's outstanding receivables from and payables to the same related parties as presented in Notes 7 and 23 can be potentially offset to the extent of their corresponding outstanding balances.

## 30. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 30.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and nonfinancial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The quoted market price used for financial assets held by the Group is the current bid price.

### ***30.2 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed***

Management considers that due to the short duration of these financial assets (except long-term receivables) and financial liabilities measured at amortized cost, their carrying amounts as of December 31, 2019 and 2018 approximate their fair value. Except for cash and cash equivalents which is classified under Level 1, all other financial instruments are classified under Level 3 wherein inputs are not based on observable data.

The fair values of the financial assets and financial liabilities included in Level 3 which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### ***30.3 Fair Value Measurement of Financial Assets at Fair Value***

The Group's golf club shares classified as financial assets at FVOCI are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

There is no change in the fair value of these financial assets in 2019 and 2017, while the fair value of these financial assets increased by P2,925 in 2018. The changes in fair value is presented as Fair Value Gains on Financial Assets at Fair Value through Other Comprehensive Income account in the 2018 consolidated statement of comprehensive income and the accumulated changes is presented as part of Accumulated Fair Value Gains (Losses) account in the Equity section of the consolidated statements of financial position.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in 2019 and 2018.

The Group has no financial liabilities measured at fair value as of December 31, 2019 and 2018.

### ***30.4 Fair Value Measurement on Nonfinancial Assets***

Management considers the hierarchy of disclosed fair values of raw land inventory and investment property measured at cost and the fair value used to determine the impairment loss on certain property and equipment to be at Level 3. The fair value is determined on the basis of the appraisals performed by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations, from existing bid and offer prices and from recent sale transactions of adjacent properties. To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's investment properties and raw land inventory are their current use.

The Level 3 fair value of raw land inventory and investment properties was derived using the observable recent transaction prices for similar properties in nearby locations adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

There has been no change to the valuation techniques used by the Group during the year for its investment properties. Also, there were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in 2019 and 2018.



### 31. CAPITAL MANAGEMENT OBJECTIVE, POLICIES AND PROCEDURES

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to stockholders or issue new shares.

The Group defines capital as paid-in capital stock, which includes additional paid-in capital and retained earnings, both the restricted and available for dividend declaration portions. Other components of equity such as treasury shares and revaluation reserves are excluded from capital for purposes of capital management. The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total liabilities (excluding deferred tax liabilities) divided by total equity attributable to owners of the Group [excluding accumulated fair value loss, cumulative translation adjustment and reserve for retirement plan]. Capital for the reporting periods as of December 31, 2019, 2018 and 2017 under review is summarized below.

|                      | <u>2019</u>              | 2018<br>(As Restated –<br>see Note 25.5) | 2017<br>(As Restated –<br>see Note 25.5) |
|----------------------|--------------------------|------------------------------------------|------------------------------------------|
| Total liabilities    | <b>P 14,453,160</b>      | P 11,841,358                             | P 11,025,427                             |
| Total equity         | <b><u>22,065,757</u></b> | <u>20,888,943</u>                        | <u>19,363,954</u>                        |
| Debt-to-equity ratio | <b><u>0.66:1.00</u></b>  | <u>0.57:1.00</u>                         | <u>0.57:1.00</u>                         |

The Group, except for BOC which is subject to certain capitalization requirement by the BSP, is not subject to externally imposed capital requirements.

### 32. SUPPLEMENTAL INFORMATION ON NONCASH ACTIVITIES

Discussed below and in the succeeding page are the supplemental information on noncash investing activities relative to the consolidated statements of cash flows of the Group.

| <u>Nature of Transactions</u>                                             | <u>Notes</u> | <u>2019</u>      | <u>2018</u> | <u>2017</u> |
|---------------------------------------------------------------------------|--------------|------------------|-------------|-------------|
| (a) Effect of adoption of PFRS 16                                         | 2.2(a)(i)    |                  |             |             |
| (i) Recognition of lease liabilities                                      |              | <b>P 145,579</b> | P -         | P -         |
| (ii) Recognition of right-of-use asset                                    |              | <b>53,162</b>    | -           | -           |
| (iii) Recognition of finance lease receivables                            |              | <b>82,867</b>    | -           | -           |
| (iv) Derecognition of PAS 17 receivable                                   |              | <b>( 2,789)</b>  | -           | -           |
| (b) Reclassification of certain raw land inventory to investment property | 9, 12        | <b>2,200</b>     | -           | -           |

| Nature of Transactions                                                                                                   | Notes | 2019  | 2018    | 2017    |
|--------------------------------------------------------------------------------------------------------------------------|-------|-------|---------|---------|
| (c) Result of sublease conversion from operating lease to finance lease                                                  |       |       |         |         |
| (i) Derecognition of right-of-use asset                                                                                  | 12    | 3,170 | -       | -       |
| (ii) Recognition of additional finance lease receivables                                                                 |       | 1,599 | -       | -       |
| (d) Additions to investment property as a result of acquisition of a subsidiary                                          | 12    | -     | 695,316 | -       |
| (e) Reclassification of investment property to real estate project                                                       | 8, 12 | -     | 184,800 | -       |
| (f) Derecognition of investment properties as a result of disposal of controlling interests on subsidiaries              |       | -     | -       | 685,814 |
| (g) Additions to investment property through acquisition of a new subsidiary which remain unpaid as of December 31, 2017 |       | -     | -       | 707,403 |

### 33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Group's liabilities arising from financing activities as at the beginning and end of 2019 and 2018, which includes both cash and non-cash changes.

|                                          | Loans and Borrowings<br>(see Note 16) | Accrued Interest Payable<br>(see Note 17) | Due to Related Parties<br>(see Note 23) | Lease Liabilities<br>(see Note 18) | Total               |
|------------------------------------------|---------------------------------------|-------------------------------------------|-----------------------------------------|------------------------------------|---------------------|
| Balance at January 1, 2019               | P 10,357,380                          | P 35,171                                  | P 33,357                                | P -                                | P 10,425,908        |
| Cash flows from financing activities:    |                                       |                                           |                                         |                                    |                     |
| Additional loans and borrowings          | 32,791,675                            | -                                         | -                                       | -                                  | 32,791,675          |
| Repayment of loans and borrowings (      | 30,715,945 )                          | -                                         | -                                       | -                                  | ( 30,715,945 )      |
| Repayment of lease liabilities           | -                                     | -                                         | -                                       | ( 10,217 )                         | ( 10,217 )          |
| Interest paid                            | -                                     | ( 586,889 )                               | -                                       | ( 12,014 )                         | ( 598,903 )         |
| Non-cash financing activities:           |                                       |                                           |                                         |                                    |                     |
| Effect of adoption of PFRS 16            | -                                     | -                                         | -                                       | 145,579                            | 145,579             |
| Accretion of interest                    | -                                     | 588,928                                   | -                                       | 12,014                             | 600,942             |
| Balance at December 31, 2019             | <b>P 12,433,110</b>                   | <b>P 37,210</b>                           | <b>P 33,357</b>                         | <b>P 135,362</b>                   | <b>P 12,639,039</b> |
| Balance at January 1, 2018               | P 8,803,746                           | P 29,186                                  | P 29,924                                | P -                                | P 8,862,856         |
| Cash flows from financing activities:    |                                       |                                           |                                         |                                    |                     |
| Additional loans and borrowings          | 66,645,214                            | -                                         | -                                       | -                                  | 66,645,214          |
| Repayment of loans and borrowings (      | 65,091,580 )                          | -                                         | -                                       | -                                  | ( 65,091,580 )      |
| Interest paid                            | -                                     | ( 399,180 )                               | -                                       | -                                  | ( 399,180 )         |
| Receipt of advances from related parties | -                                     | -                                         | 3,433                                   | -                                  | 3,433               |
| Non-cash financing activities:           |                                       |                                           |                                         |                                    |                     |
| Effect of adoption of PFRS 16            | -                                     | -                                         | -                                       | -                                  | -                   |
| Accretion of interest                    | -                                     | 405,165                                   | -                                       | -                                  | 405,165             |
| Balance at December 31, 2018             | <b>P 10,357,380</b>                   | <b>P 35,171</b>                           | <b>P 33,357</b>                         | <b>P -</b>                         | <b>P 10,425,908</b> |

### **34. EVENT AFTER END OF THE REPORTING PERIOD**

Subsequent to the end of the reporting period, the Group and other Philippine businesses have been significantly exposed to various risks brought about by the outbreak of the new coronavirus disease, COVID-19. COVID-19 started to become widespread in the Philippines in early March 2020, causing the government to declare a state of public health emergency in the country on March 8, 2020. The government imposed travel restrictions to and from certain countries. Social distancing and heightened health measures have been implemented.

While expected to be temporary, management expects the COVID-19 outbreak to impact the Group's financial condition and results of operations. Specifically, the Group's hotel operations segment is expected to be affected by reduced room occupancy and foot traffic due to imposed travel restrictions, while the real estate sales segment may be affected by potential decreases in market value of properties within the real estate industry, which may impact the net realizable value of the Group's inventories. However, the severity of these consequences will depend on certain developments, including the duration of the spread of the outbreak, impact on Group's customers, suppliers, employees and accessibility and effectiveness of government protocols and support programs, all of which are uncertain and cannot be reliably determined as of the date of the issuance of the financial statements. Accordingly, management is not able to reliably estimate the impact of the outbreak on the Group's financial condition and results of operations for future periods.

Relative to this situation, the Group continued to conduct its business while placing paramount consideration on the health and welfare of its employees, customers, and other stakeholders. The Group has implemented measures to mitigate the transmission of COVID-19, such as making hand sanitizers and washing stations available within its properties, increasing the frequency of disinfection of facilities, limiting face-to-face meetings, and implementing health protocols for employees. The Group's hotel operations segment is also able to operate at about 55% of its occupancy capacity since the Group caters to long-staying guests who are staying at the Group's hotel. Despite the said circumstances, management believes that the current measures implemented by management can mitigate the further negative impact of COVID-19 on the Group's business and its financial condition and status of operations.

The Group has determined that this event is a non-adjusting event. Accordingly, the impact was not reflected in the Group's financial statements as of and for the year ended December 31, 2019.

# **Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Consolidated Financial Statements**

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Philippines  
T +63 2 988 22 88

**The Board of Directors and Stockholders  
San Miguel Properties, Inc. and Subsidiaries  
(A Subsidiary of San Miguel Corporation)**  
3<sup>rd</sup> Floor, San Miguel Head Office Complex  
No. 40 San Miguel Ave., Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Properties, Inc. and Subsidiaries (the Group) as of and for the year ended December 31, 2019, on which we have rendered our report dated March 10, 2020. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

## **PUNONGBAYAN & ARAULLO**



By: **Anthony L. Ng**  
Partner

CPA Reg. No. 0109764  
TIN 230-169-270  
PTR No. 7333699, January 2, 2020, Makati City  
SEC Group A Accreditation  
Partner - No. 1638-A (until May 29, 2020)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-038-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 10, 2020

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
*(A Subsidiary of San Miguel Corporation)*  
**List of Supplementary Information**  
**December 31, 2019**

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*\*Information therein are based on the separate financial statements of the Parent Company.*

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule A - Financial Assets at Fair Value Through Other Comprehensive Income )

December 31, 2019

(Amounts in Thousand Philippine Pesos)

| <i>Name of issuing entity and<br/>association of each issue</i> | <i>Number of shares or<br/>principal amount of<br/>bonds or notes</i> | <i>Amount shown on<br/>the balance sheet</i> | <i>Valued based on the<br/>market quotation at<br/>balance sheet date</i> | <i>Income received and<br/>accrued</i> |
|-----------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------|----------------------------------------|
| Riviera Golf Shares                                             | P 1                                                                   | P 4,170                                      | P 4,170                                                                   | P -                                    |
| Sta. Elena Golf                                                 | 1                                                                     | 5,500                                        | 5,500                                                                     | -                                      |
| Mimosa Golf                                                     | 4                                                                     | 1,600                                        | 1,600                                                                     | -                                      |
| Meralco                                                         | 91,011                                                                | 910                                          | 910                                                                       | -                                      |
| Apo Golf                                                        | 1                                                                     | 530                                          | 530                                                                       | -                                      |
| Tagaytay Midlands                                               | 1                                                                     | 650                                          | 650                                                                       | -                                      |
| Metroclub                                                       | 1                                                                     | 250                                          | 250                                                                       | -                                      |
| Italian Country Club                                            | 89                                                                    | -                                            | -                                                                         | -                                      |
|                                                                 | <b><u>P 91,109</u></b>                                                | <b><u>P 13,610</u></b>                       | <b><u>P 13,610</u></b>                                                    | <b><u>P -</u></b>                      |

SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule B - Amounts Receivable/Accounts Payable from/to Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)

December 31, 2019

(Amounts in Thousand Philippine Pesos)

| Name and designation of debtor | Balance at<br>beginning of period | Additions | Deductions        |                        | Ending Balance |             | Balance at end of<br>period |
|--------------------------------|-----------------------------------|-----------|-------------------|------------------------|----------------|-------------|-----------------------------|
|                                |                                   |           | Amounts collected | Amounts<br>written off | Current        | Not current |                             |

**NOT APPLICABLE**

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
**Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**  
**December 31, 2019**  
*(Amounts in Millions of Philippine Pesos)*

| Name and designation of debtor            | Balance at the beginning of the period | Additions | Deductions                 |                     | Ending Balance     |             | Balance at the end of the period |
|-------------------------------------------|----------------------------------------|-----------|----------------------------|---------------------|--------------------|-------------|----------------------------------|
|                                           |                                        |           | Amounts Collected          | Amounts written off | Current            | Non Current |                                  |
| <b>Advances to Subsidiaries:</b>          |                                        |           |                            |                     |                    |             |                                  |
| 512 Acacia Holdings Corpo                 | P 179,941                              | P         | 9,187 ( P 12)              | P -                 | P 189,116          | P -         | P 189,116                        |
| Apice Solare Resources Co                 | 38,562                                 |           | 3,915 ( 2)                 | -                   | 42,475             | -           | 42,475                           |
| Bricktree Properties, Inc                 | -                                      |           | 3,193 ( -                  | -                   | 3,193              | -           | 3,193                            |
| Bright Ventures Realty, I                 | -                                      |           | 7,505 ( 7,501)             | -                   | 4                  | -           | 4                                |
| Brillar Realty And Develo                 | 54,911                                 |           | 2,422 ( -                  | -                   | 57,333             | -           | 57,333                           |
| Bulalacao Property Holdin                 | 3,428                                  |           | 362 ( 2)                   | -                   | 3,788              | -           | 3,788                            |
| Busuanga Bay Holdings, In                 | 7,833                                  |           | 573 ( 2)                   | -                   | 8,404              | -           | 8,404                            |
| Calamian Prime Holdings,                  | 2,619                                  |           | 330 ( 2)                   | -                   | 2,947              | -           | 2,947                            |
| Carnell Realty, Inc.                      | 75,498                                 |           | 3,591 ( 11,517)            | -                   | 67,572             | -           | 67,572                           |
| Casa Sabroso Holdings Inc                 | 269                                    |           | 632 ( -                    | -                   | 901                | -           | 901                              |
| Caticanscapes Realty Dev                  | 1,792                                  |           | 2,112 ( 41)                | -                   | 3,863              | -           | 3,863                            |
| Cliffside Rock Realty, In                 | -                                      |           | 214 ( -                    | -                   | 214                | -           | 214                              |
| Coron Islands Holdings, I                 | 13,978                                 |           | 809 ( 2)                   | -                   | 14,785             | -           | 14,785                           |
| Dimanyan Wakes Holdings,                  | 6,021                                  |           | 474 ( 2)                   | -                   | 6,493              | -           | 6,493                            |
| Dor Adab Realty Developme                 | -                                      |           | 405 ( -                    | -                   | 405                | -           | 405                              |
| E- Fare Investment Holdin                 | -                                      |           | 6,930 ( 3,248)             | -                   | 3,682              | -           | 3,682                            |
| El Montanas Realty Corp                   | 30,827                                 |           | 1,412 ( -                  | -                   | 32,239             | -           | 32,239                           |
| Elite Montagne (Bel Aldea                 | 6,334                                  |           | 376 ( 2)                   | -                   | 6,708              | -           | 6,708                            |
| First Monte Sierra Realty                 | 58,305                                 |           | 2,784 ( -                  | -                   | 61,089             | -           | 61,089                           |
| Grandioso Realty Corporat                 | 102,289                                |           | 9,407 ( 2)                 | -                   | 111,694            | -           | 111,694                          |
| High Garden Land Resource                 | -                                      |           | 215 ( -                    | -                   | 215                | -           | 215                              |
| Imperio Sureste Realty In                 | -                                      |           | 226 ( -                    | -                   | 226                | -           | 226                              |
| Integrated Geosolutions I                 | 21,877                                 |           | 14,447 ( 2)                | -                   | 36,322             | -           | 36,322                           |
| Kingsborough Realty Inc.                  | 58,136                                 |           | 2,346 ( 12)                | -                   | 60,470             | -           | 60,470                           |
| La Belle Plume (Maravilla                 | 7,641                                  |           | 545 ( 2,291)               | -                   | 5,895              | -           | 5,895                            |
| La Verduras Realty Corp                   | 139,906                                |           | 28,096 ( 10,441)           | -                   | 157,561            | -           | 157,561                          |
| Lanes & Bi-Ways Realty Co                 | 936,489                                |           | 35,984 ( 40)               | -                   | 972,433            | -           | 972,433                          |
| Malay-Nabas Realty Develo                 | 2,328 (                                | 1,359)    | ( 969)                     | -                   | -                  | -           | -                                |
| Max Harvest Holdings Inc.                 | -                                      |           | 8,581 ( -                  | -                   | 8,581              | -           | 8,581                            |
| Moonspring Development, I                 | 2,468                                  |           | 6,703 ( 5,531)             | -                   | 3,640              | -           | 3,640                            |
| Newscapes Haven Developme                 | 3,558                                  |           | 8,335 ( 1,102)             | -                   | 10,791             | -           | 10,791                           |
| One Wilson Cayenne Holdin                 | -                                      |           | 42,460 ( -                 | -                   | 42,460             | -           | 42,460                           |
| Palawan White Sands Holdi                 | 1,898                                  |           | 215 ( 2)                   | -                   | 2,111              | -           | 2,111                            |
| Picanto De Alta Realty Co                 | 167,898                                |           | 7,153 ( 25)                | -                   | 175,026            | -           | 175,026                          |
| Premiata Realty Inc.                      | 121,889                                |           | 5,251 ( 12)                | -                   | 127,128            | -           | 127,128                          |
| Promesa Land Resources, I                 | 4,271                                  |           | 2,854 ( 1)                 | -                   | 7,124              | -           | 7,124                            |
| Quick Silver Development                  | 9,983                                  |           | 7,551 ( -                  | -                   | 17,534             | -           | 17,534                           |
| Rapidshare Realty And Dev                 | 719,505                                |           | 33,348 ( -                 | -                   | 752,853            | -           | 752,853                          |
| Roca Pesada Realty Corp                   | 108,818                                |           | 5,192 ( -                  | -                   | 114,010            | -           | 114,010                          |
| Smc Originals                             | 104,041                                |           | 7,727 ( -                  | -                   | 111,768            | -           | 111,768                          |
| Smpi Makati Flagship Real                 | -                                      |           | 482 ( -                    | -                   | 482                | -           | 482                              |
| Sta. Cruz Resource Manage                 | 107,509                                |           | 5,722 ( 16)                | -                   | 113,215            | -           | 113,215                          |
| Tanaun Resources, Inc.                    | 497,746                                |           | 21,897 ( 2)                | -                   | 519,641            | -           | 519,641                          |
| Tierra Castellanas Development            | 28,844                                 |           | 1,929 ( -                  | -                   | 30,773             | -           | 30,773                           |
| Tierra Verdosa Real Estate Services, Inc. | -                                      |           | 4,850 ( -                  | -                   | 4,850              | -           | 4,850                            |
| Uno Clarity Investment                    | 2,200                                  |           | 53,430 ( 4,904)            | -                   | 50,726             | -           | 50,726                           |
| ZEF2 Resources Inc.                       | 514,078                                |           | 20,103 ( 11,658)           | -                   | 522,523            | -           | 522,523                          |
| <b>P</b>                                  | <b>4,143,690</b>                       | <b>P</b>  | <b>380,916 ( P 59,343)</b> | <b>P -</b>          | <b>P 4,465,263</b> | <b>P -</b>  | <b>P 4,465,263</b>               |



SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES  
SEC Released Amended SRC Rule 68  
Annex 68-E  
Schedule D - Intangible Assets - Other Assets  
December 31, 2019  
(Amounts in Thousand Philippine Pesos)

| Description                                     | Beginning balance | Additions at cost | Deduction                    |                           |                                      | Ending balance    |
|-------------------------------------------------|-------------------|-------------------|------------------------------|---------------------------|--------------------------------------|-------------------|
|                                                 |                   |                   | Charged to cost and expenses | Charged to other accounts | Other changes additions (deductions) |                   |
| Goodwill                                        | P 27,462          | P -               | P -                          | P -                       | P -                                  | P 27,463          |
| <b>Trademarks and Other Intangibles</b>         |                   |                   |                              |                           |                                      |                   |
| Cost:                                           |                   |                   |                              |                           |                                      |                   |
| Licenses                                        | P 34,163          | P 1,008           | P -                          | P -                       | P -                                  | P 35,171          |
| Land use rights                                 | 164,213           | -                 | -                            | -                         | -                                    | 164,213           |
|                                                 | <u>198,376</u>    | <u>1,008</u>      | <u>-</u>                     | <u>-</u>                  | <u>-</u>                             | <u>199,384</u>    |
| Accumulated Amortization and Impairment Losses: |                   |                   |                              |                           |                                      |                   |
| Licenses                                        | ( P 30,874 )      | P -               | ( P 2,757 )                  | P -                       | P -                                  | ( P 33,631 )      |
| Land use rights                                 | ( 632 )           | -                 | ( 210 )                      | -                         | -                                    | ( 842 )           |
|                                                 | <u>( 31,506 )</u> | <u>-</u>          | <u>( 2,967 )</u>             | <u>-</u>                  | <u>-</u>                             | <u>( 34,473 )</u> |
| Net Book Value:                                 | <u>P 166,870</u>  | <u>P 1,008</u>    | <u>( P 2,967 )</u>           | <u>P -</u>                | <u>P -</u>                           | <u>P 164,911</u>  |

SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES  
SEC Released Amended SRC Rule 68  
Annex 68-E  
Schedule E - Long-Term Debt  
December 31, 2019  
*(Amounts in Thousand Philippine Pesos)*

| <i>Title of issue and type of obligation</i> | <i>Amount authorized by indenture</i> | <i>Amount shown under caption "Current portion of long-term debt" in related balance sheet</i> | <i>Amount shown under caption "Long-Term Debt" in related balance sheet</i> |
|----------------------------------------------|---------------------------------------|------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
|----------------------------------------------|---------------------------------------|------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|

**NOT APPLICABLE**

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
**SEC Released Amended SRC Rule 68**  
**Annex 68-E**  
**Schedule F - Indebtedness to Related Parties**  
**December 31, 2019**  
*(Amounts in Thousand Philippine Pesos)*

| <i>Name and designation of debtor</i> | <i>Balance at beginning of period</i> | <i>Balance at end of period</i> |
|---------------------------------------|---------------------------------------|---------------------------------|
| San Miguel Corporation                | P 33,357                              | P 33,357                        |

SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES  
SEC Released Amended SRC Rule 68  
Annex 68-E  
Schedule G - Guarantees of Securities of Other Issuers  
December 31, 2019  
*(Amounts in Thousand Philippine Pesos)*

| <i>Name of issuing entity of securities guaranteed by the company for which this statement is filed</i> | <i>Title of issue of each class of securities guaranteed</i> | <i>Total amount guaranteed an outstanding</i> | <i>Amount owned by person for which statement is filed</i> | <i>Nature of guarantee</i> |
|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------|------------------------------------------------------------|----------------------------|
|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------|------------------------------------------------------------|----------------------------|

**NOT APPLICABLE**

SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES  
SEC Released Amended SRC Rule 68  
Annex 68-E  
Schedule H - Capital Stock  
December 31, 2019  
(Amounts in Thousand Philippine Pesos)

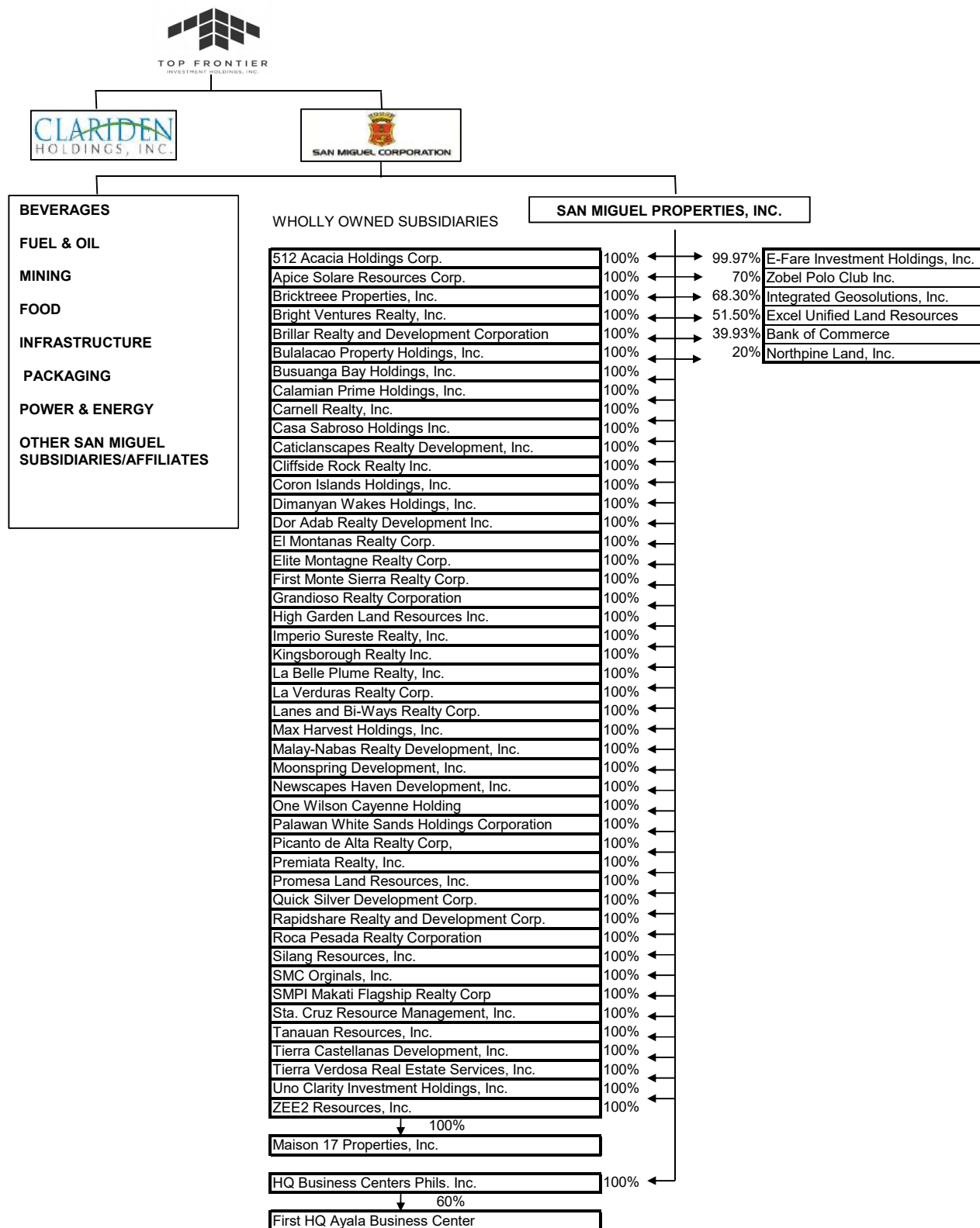
| <i>Title of Issue</i>         | <i>Number of shares authorized</i> | <i>Number of shares issued and outstanding as shown under the related balance sheet caption</i> | <i>Number of shares reserved for options, warrants, conversion and other rights</i> | <i>Number of shares held by</i> |                                          |               |
|-------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------|------------------------------------------|---------------|
|                               |                                    |                                                                                                 |                                                                                     | <i>Related parties</i>          | <i>Directors, officers and employees</i> | <i>Others</i> |
| Common shares - P10 par value | 1,500,000,000                      | 719,680,169                                                                                     | -                                                                                   | 719,602,498                     | -                                        | 77,671        |

**SAN MIGUEL PROPERTIES, INC.**  
*(A Subsidiary of San Miguel Corporation)*  
3rd Floor, San Miguel Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City

**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**For the Year Ended December 31, 2019**

|                                                               |          |                             |
|---------------------------------------------------------------|----------|-----------------------------|
| <b>Unappropriated Retained Earnings at Beginning of Year,</b> |          |                             |
| <b>as previously reported</b>                                 | P        | 2,985,275,549               |
| Prior period adjustment                                       | (        | 29,208,303 )                |
| Effect of adoption of PFRS 16                                 |          | <u>2,620,086</u>            |
| <b>Unappropriated Retained Earnings at Beginning of Year,</b> |          |                             |
| <b>as restated</b>                                            |          | 2,958,687,332               |
| <br><b>Less Prior Years' Outstanding Reconciling Items</b>    |          |                             |
| Beginning Deferred Asset                                      | (        | <u>113,239,725 )</u>        |
| <br><b>Unappropriated Retained Earnings Available for</b>     |          |                             |
| <b>Dividend Declaration at Beginning of Year</b>              |          | 2,845,447,607               |
| <br><b>Net Profit Realized during the Year</b>                |          |                             |
| Net profit per audited financial statements                   | P        | 31,685,622                  |
| Deferred tax income                                           | (        | <u>20,036 )</u>             |
|                                                               |          | 31,665,586                  |
| <br><b>Retained Earnings Restricted for Treasury Shares</b>   | (        | <u>9,515,759 )</u>          |
| <br><b>Unappropriated Retained Earnings Available for</b>     |          |                             |
| <b>Dividend Declaration at End of Year</b>                    | <b>P</b> | <b><u>2,867,597,434</u></b> |

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
*(A Subsidiary of San Miguel Corporation)*  
**MAP SHOWING THE RELATIONSHIP AMONG AND BETWEEN THE COMPANY AND ITS RELATED ENTITIES**  
 December 31, 2019



SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES  
*(A Subsidiary of San Miguel Corporation)*  
Supplemental Schedule of Financial Soundness Indicators  
December 31, 2019, 2018 and 2017  
*(Amounts in Thousand Philippine Pesos)*

| Ratio                        | Formula                            | Ratio      |       |            |        |            |        |
|------------------------------|------------------------------------|------------|-------|------------|--------|------------|--------|
|                              |                                    | 2019       |       | 2018       |        | 2017       |        |
| Current ratio                | Total current assets               | 8,174,391  | 0.57  | 7,172,535  | 0.61   | 8,009,100  | 0.73   |
|                              | Total current liabilities          | 14,308,357 |       | 11,808,813 |        | 10,985,608 |        |
| Acid test ratio              | Quick assets                       | 4,207,792  | 0.29  | 3,329,988  | 0.28   | 4,556,793  | 0.41   |
|                              | Total current liabilities          | 14,308,357 |       | 11,808,813 |        | 10,985,608 |        |
| Solvency ratio               | Total liabilities                  | 14,522,540 | 0.40  | 11,904,727 | 0.36   | 11,133,889 | 0.36   |
|                              | Total assets                       | 36,737,096 |       | 32,985,764 |        | 30,714,203 |        |
| Debt-to-equity ratio         | Total liabilities                  | 14,453,160 | 0.66  | 11,841,358 | 0.57   | 11,025,427 | 0.57   |
|                              | Total equity                       | 22,065,757 |       | 20,888,943 |        | 19,363,954 |        |
| Assets-to-equity ratio       | Total assets                       | 36,737,096 | 1.65  | 32,985,764 | 1.56   | 30,714,203 | 1.57   |
|                              | Total equity                       | 22,214,556 |       | 21,081,037 |        | 19,580,314 |        |
| Interest rate coverage ratio | Earnings before interest and taxes | 704,196    | 1.17  | 777,770    | 1.84   | 965,035    | 3.19   |
|                              | Interest expense                   | 601,586    |       | 421,945    |        | 302,152    |        |
| Return on equity             | Net profit                         | 20,361     | 0.09% | 285,681    | 1.41%  | 383,315    | 2.00%  |
|                              | Average total equity               | 21,647,796 |       | 20,330,675 |        | 19,159,920 |        |
| Return on assets             | Net profit                         | 20,361     | 0.06% | 285,681    | 0.90%  | 383,315    | 1.27%  |
|                              | Average total assets               | 34,861,430 |       | 31,849,984 |        | 30,073,008 |        |
| Net profit margin            | Net profit                         | 20,361     | 1.04% | 285,681    | 15.05% | 383,315    | 16.01% |
|                              | Revenues                           | 1,942,910  |       | 1,897,612  |        | 2,393,675  |        |



**Reports on SEC Form 17-C**

| <b>Reporting Date</b> | <b>Report</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| January 3, 2019       | <p><b><u>Certificate of Attendance of Directors</u></b></p> <p><b><u>Certificate of Compliance with Manual on Corporate Governance</u></b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| January 3, 2019       | <p><b><u>Resignation of Mr. Jenzell I. Libunao</u></b></p> <p><i>“Please be informed that Mr. Jenzell I. Libunao has tendered his resignation as Accounts Management Group Manager of San Miguel Properties, Inc. (or “Company”) effective 31 December 2018.</i></p> <p><i>In this regard, please note that Ms. Renee R. Tolod-Fulay has been appointed as Officer-In-Charge (OIC) for the said position in view of the aforementioned resignation of Mr. Libunao.</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| April 16, 2019        | <p><b><u>List of Stockholders</u></b></p> <p><i>“Please be informed that the Annual Stockholders Meeting of San Miguel Properties, Inc. (the “Corporation”) shall be held on 22 May 2019 (Wednesday). We shall accordingly inform the stockholders concerned of this schedule and the detail as to the time and venue through the distribution of a Definitive Information Statement.</i></p> <p><i>In this regard, the record date for determining the list of stockholders entitled to vote during the aforementioned meeting, hereto attached as Annex “A”, is on 16 April 2019.”</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| May 22, 2019          | <p><b><u>Results of 2019 Annual Stockholders’ Meeting</u></b></p> <p><i>“We disclose that at the Annual Stockholders’ Meeting (“ASM”) of San Miguel Properties, Inc. (the “Company”) held on 22 May 2019, at the Executive Dining Room, 2<sup>nd</sup> Floor SMC Head Office Complex, Mandaluyong City, the following directors were duly elected, two (2) of whom are independent directors:</i></p> <p><i>Ramon S. Ang</i><br/> <i>Aurora T. Calderon</i><br/> <i>Jeronimo U. Kilayko – Independent Director</i><br/> <i>Mario C. Garcia</i><br/> <i>Hector L. Hofileña</i><br/> <i>Minita V. Chico-Nazario – Independent Director</i><br/> <i>Karen V. Ramos</i></p> <p><i>Attached hereto are copies of the Certifications executed by Mr. Kilayko and Ms. Chico-Nazario, under Annexes “A” and “B” respectively, in connection with their election as independent directors of the Company.</i></p> <p><i>At the Organizational Meeting of the Board immediately following the regular ASM, the following were elected as officers:</i></p> <p><i>Ramon S. Ang – Chairman and President</i><br/> <i>Karen V. Ramos – General Manager</i><br/> <i>Maria Alma C. Geronimo – Treasurer</i><br/> <i>Karen M. Cas-Caballa – Corporate Secretary/Compliance Officer</i><br/> <i>Jessehan P. Pia-Perillo – Assistant Corporate Secretary</i></p> <p><i>In the same meeting, the Board confirmed the appointment of the following Chairpersons and members of the Board Committees:</i></p> |

|                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                | <p><b>AUDIT COMMITTEE</b></p> <p><i>Minita V. Chico-Nazario – Chairperson</i><br/> <i>Aurora T. Calderon – Member</i><br/> <i>Jeronimo U. Kilayko – Member</i><br/> <i>Ferdinand K. Constantino – Member</i></p> <p><b>EXECUTIVE COMPENSATION COMMITTEE</b></p> <p><i>Minita V. Chico-Nazario – Chairperson</i><br/> <i>Jeronimo U. Kilayko – Member</i><br/> <i>Ferdinand K. Constantino – Member</i></p> <p><b>NOMINATIONS AND HEARING COMMITTEE</b></p> <p><i>Jeronimo U. Kilayko – Chairperson</i><br/> <i>Hector L. Hofileña – Member</i><br/> <i>Aurora T. Calderon – Member</i></p> <p><i>Further, the Board of Trustees elected for the SMPI Retirement Fund are:</i></p> <ol style="list-style-type: none"> <li><i>1. Aurora T. Calderon</i></li> <li><i>2. Bella O. Navarra</i></li> <li><i>3. Ann Loraine O. Maliksi</i></li> <li><i>4. Karen V. Ramos</i></li> </ol> <p><i>Finally, the external auditor designated by the Board of Directors is Punongbayan and Araullo.”</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| May 23, 2019   | <p><b><u>Proof of Publication</u></b></p> <p><i>“In compliance with SEC Resolution No. 196, Series of 2015, please see attached copies of proof of publication of the Company’s advisory relative to the unaudited interim financial statements for the 1st Quarter of 2019 in two (2) newspapers of general circulation, particularly Business Mirror and Malaya Business Insight dated May 16, 2019.”</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| August 7, 2019 | <p><b><u>Appointment of Engr. Julius A. Marzona</u></b></p> <p><i>“We disclose that during the regular board meeting of San Miguel Properties, Inc. (the “Company”) held on 6 August 2019, it has approved the appointment of Engr. Julius A. Marzoña, as Head of the Technical Services Group, with the rank of Assistant Vice-President.</i></p> <p><i>Mr. Marzona has a total of 36 years of relevant work experience, having assumed various positions: (1) Project Manager with the rank of Asst. Vice President for the Project Management Group of SM Engineering Design and Development from May 2018 to July 2019 handling 52 projects in 35 locations for the SM Group of Companies; (2) Project Director for the Construction Management Group of Ayala Hotels and Resorts Corporation from March 2016 to April 2018. During this time, he has handled the construction of Seda Hotels in Cebu City and Paranaque as well as the Mandarin Oriental Hotel in Makati City; (3) Team Head with the rank of Vice President for Rockwell Land Corporation. He was tasked as Project Manager for the various developments of Rockwell such as Joya Lofts and Towers, Rockwell Business Center, One Rockwell Project and Edades Tower and Garden Villas, The Grove and other high end projects. During this time, he has also managed to develop the in-house Construction Project Management Team of the Company; and (4) Field Engineer, Civil Engineer and Design and Control Engineer from 1983 to 2016 for various real estate development companies.”</i></p> |

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MINITA V. CHICO-NAZARIO**, Filipino of legal age, and a resident of 299 Governor A. Santos, BF Homes, Parañaque, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Properties, Inc. ("SMPI") and have been its independent director since 9 May 2012.

2. I am affiliated with the following companies or organizations:

| Company                                                                   | Position/Relationship | Period of Service    |
|---------------------------------------------------------------------------|-----------------------|----------------------|
| College of Law, University of Perpetual Help system Dalta, Las Piñas City | Dean                  | June 2011 to present |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMPI, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and regulations and other issuances of the Securities and Exchange Commission ("SEC").

4. I am related to the following director/officer/substantial shareholder of SMPI and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code:

| Name of Director/Officer/Substantial Shareholder | Company                    | Nature of Relationship |
|--------------------------------------------------|----------------------------|------------------------|
| Ginebra San Miguel                               | Ginebra San Miguel         | Independent Director   |
| San Miguel Purefoods, Inc.                       | San Miguel Purefoods, Inc. | Independent Director   |


5. I disclose that I have never been the subject of any criminal/administrative investigation or proceeding.

6. I am neither in government service nor affiliated with a government agency or government-owned and -controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing rules and regulations, the Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of San Miguel Properties, Inc. of any changes in the abovementioned information within five (5) days from its occurrence.

Done this \_\_\_\_\_ of day of \_\_\_\_\_ 2020 at Mandaluyong City.

  
**MINITA V. CHICO-NAZARIO**  
Independent Director

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ at Mandaluyong City, affiant exhibiting to me her Tax Identification Card with No. 146-148-455.

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of 2020.

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JERONIMO U. KILAYKO**, Filipino of legal age, and a resident of 2024 Kalamansi St. Dasmariñas Village, Makati, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Properties, Inc. ("SMPI") and have been its independent director since 8 May 2017.

2. I am affiliated with the following companies or organizations:

| Company               | Position/Relationship | Period of Service |
|-----------------------|-----------------------|-------------------|
| K5 Distribution, Inc. | President             | 2003 to present   |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMPI, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and regulations and other issuances of the Securities and Exchange Commission ("SEC").

4. I am related to the following director/officer/substantial shareholder of SMPI and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code:

| Name of Director/Officer/Substantial Shareholder | Company                     | Nature of Relationship |
|--------------------------------------------------|-----------------------------|------------------------|
| Busuanga Bay Holdings, Inc.                      | Busuanga Bay Holdings, Inc. | Independent Director   |
| Coron Island Holdings, Inc.                      | Coron Island Holdings, Inc. | Independent Director   |

5. I disclose that I am the subject of the following criminal/administrative investigation or proceeding:

| Offense Charged/Investigated                                                                                                                                                                                 | Tribunal or Agency Involved | Status                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A legal suit between private parties (EGI) and the United Coconut Planters Bank (UCPB). I was included only because I was the <i>former President of UCPB</i> .<br><br>(G.R. No. 168859 and G.R. No. 168897) | Supreme Court               | The SC affirmed the ruling of the Court of Appeals where appellate court did not find enough evidence on record to already resolve the administrative complaint in favor of EGI and against UCPB, et. al., precisely the reason why it still remanded the case to the BSP Monetary Board for further proceedings.<br><br>To date no pending proceedings before the BSP. |

6. I am neither in government service nor affiliated with a government agency or government-owned and -controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing rules and regulations, the Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of San Miguel Properties, Inc. of any changes in the abovementioned information within five (5) days from its occurrence.

Done this \_\_\_\_\_ of day of \_\_\_\_\_ 2020 at Mandaluyong City.

  
**JERONIMO U. KILAYKO**  
Independent Director

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ at Mandaluyong City, affiant exhibiting to me his Driver's License with No. N11-71-016775 expiring on 30 September 2022.

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of 2020.