



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: March 31, 2019
2. Commission Identification Number: 845
3. BIR Tax Identification No.: 321-000-508-536
4. Exact name of registrant as specified in its charter **SOLID GROUP INC.**
5. Province, Country or other jurisdiction  
of incorporation: Philippines
6. \_\_\_\_\_ (SEC Use Only)  
Industry Classification Code
7. Address of principal office: Postal Code: 1231  
2285 Don Chino Roces Avenue, Makati City,  
Philippines
8. Telephone No: (632) 843-15-11
9. Former name, former address and former fiscal year,  
if changed since last report: N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the  
RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, P1 par value	1,821,542,000 shares

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

If yes, state the name of such Stock Exchange and the classes of securities listed therein:

Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:

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

Yes [ X ]

No [ ]

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

Yes [ X ]

No [ ]

## **PART I. – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

The unaudited consolidated financial statements of the Company and its subsidiaries for the three (3) months period ended March 31, 2019 are attached to this report.

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

#### Key Performance Indicators

The following key performance indicators are identified by the Company and included in the discussion of the results of operations and financial condition: revenue growth, asset turnover, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share (EPS), current ratio and debt to equity ratio.

Key performance indicators for 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Revenue growth(decline)	(14%)	(22%)
Asset turnover	22%	26%
Operating expense ratio	23%	20%
EBITDA	P36 million	P97 million
EPS	P0.004	P0.03
Current ratio	12.70:1	10.09:1
Debt to equity ratio	0.12:1	0.13:1

Revenue growth (decline) is determined as follows: revenues for the current period less revenues for last period divided by the revenues of the previous period.

Asset turnover is computed based on the revenues (annualized) earned during the period divided by the average total assets.

Operating expense ratio is calculated as follows: operating expenses for the period divided by revenues for period.

EBITDA is determined by adding back interest expense, depreciation and amortization charges, to income from operations before income tax for the period.

Earnings per share (EPS) is computed based on the net income or loss for the period divided by the weighted average shares outstanding during the year.

Current ratio is computed as follows: total current assets as of end of the period divided by total current liabilities as of end of the period.

Debt to equity ratio is computed by dividing the total liabilities excluding amounts due to related parties as of end of the period by the total equity as of end of the period.

Revenue decreased by 14% for the first quarter of 2019 vs. 22% decrease for the same period in 2018 principally due to lower revenues of the digital mobile and technical support & solutions segments.

Asset turnover was lower at 22% for the first quarter of 2019 from 26% for the same period in 2018 as a result of lower revenues for the period.

Operating expense ratio was 23% and 20% for the first quarter of 2019 and 2018, respectively, principally due to lower revenues for the period.

EBITDA amounted to P36 million for the first quarter of 2019 against P97 million for the same period in 2018. The decrease was mainly contributed by digital mobile segment.

Earnings per share was down to P0.004 for the first quarter of 2019 from P0.03 for the same period in 2018 mainly from lower net income for the period.

Current ratio improved to 12.70:1 as of March 31, 2019 and 10.09:1 as of December 31, 2018 primarily due to decrease in current liabilities.

Debt to equity ratio stood at 0.12:1 as of March 31, 2019 from 0.13: 1 as of December 31, 2018 primarily due to lower liabilities.

### **Results of Operations**

Revenues declined by 14% in the first quarter of 2019 reaching P659 million from P768 million for the same period in 2018 principally from lower revenues of the digital mobile segment.

Sale of goods amounted to P389 million for the first quarter of 2019, down by 26% from P529 million for the same period in 2018 mainly due to lower volume of sales of the digital products.

Service revenue went up to P163 million for the first quarter of 2019, an increase of 8% for the same period in 2018 of P151 million mainly due to higher revenues from logistics and hotel operations.

Rental income grew by 7% to P65 million for the first quarter of 2019 from P60 million for the same period in 2018 due to higher occupancy.

Interest income climbed to P41 million for the first quarter of 2019, up by 140% from P17 million for the same period in 2018 due to higher yields.

Sale of real estate was nil for the first quarter of 2019 from P9 million sale of condominium units for the same period in 2018.

Cost of sales, services, real estate sold and rentals amounted to P526 million for the first quarter of 2019, or a decrease of 9% from P578 million for the same period in 2018 as discussed below.

Cost of sales of P356 million for the first quarter of 2019 was lower by 15% from P417 million for the same period of last year in relation to decrease in sales.

Cost of services amounted to P130 million for the first quarter of 2019 from P124 million for the same period of 2018, up by 5% mainly in relation to higher service revenue.

Cost of rentals rose to P39 million for the first quarter of 2019, an increase of 28% from P30 million for the same period of 2018 mainly due to higher taxes and licenses of the property and related services segment.

Gross profit fell to P133 million for the first quarter of 2019 from P189 million for the same period in 2018. The decrease of 30% was principally due to lower gross profit rate of mobile device segment.

Other operating expenses (income) amounted to P136 million for the first quarter of 2019 from P150 million for the same period of 2018 as explained below.

General and administrative expenses stood at P92 million for the first quarter of 2019 from P93 million for the same period of 2018. There was no material change for this account.

Selling and distribution costs amounted to P56 million for the first quarter of 2019 from P62 million for the same period of 2018 mainly from lower warranty charges and delivery expenses of the digital mobile segment.

Other operating income – net grew to P12.5 million for the first quarter of 2019, higher by 118% from P5.7 million for the same period in 2018 principally due to lower reversal of FV gains on investment property of the property and building services segment.

Operating profit (loss) dropped to P2.9 million loss for the first quarter of 2019 from P39 million profit for the same period in 2018, a decline of 107% mainly from loss incurred by the mobile devices segment.

Other income (charges) declined to P 11 million income for the first quarter of 2019 against P35 million income for the same period in 2018 mainly from the following:

Finance costs increased to P2.8 million for the first quarter of 2019 compared with P0.9 million in 2018 primarily due to higher foreign currency exchange loss of property and related services segment.

Finance income was down to P14 million for the first quarter of 2019, lower by 55% compared with P33 million for the same period of last year mainly due to lower foreign exchange currency gains of the digital mobile, property and related services and investment and others segments.

Other gains - net amounted to P0.2 million loss in the first quarter of 2019 compared with P2.6 million gain of the previous year mainly from loss on sale of property in 2019 vs. other gains in 2018.

Profit before tax was P8.8 million for the first quarter of 2019, a decrease of 88% from P74 million for the same period in 2018 mainly due to net loss of the digital mobile segment and lower finance income as explained above.

Tax expense (income) amounted to P3.8 million income for the first quarter of 2019 from P21 million expense in 2018 principally due to recognition of DTA for current year's losses of the digital mobile segment offset by higher pre-tax income in 2019 of certain subsidiaries.

Net profit amounted to P12 million for the first quarter of 2019 against P53 million net profit for the same period in 2018 due to the factors discussed above.

Net profit attributable to equity holders of the parent amounted to P6 million for the first quarter of 2019 against P50 million net profit in for the same period of 2018 as discussed above.

Net profit attributable to non-controlling interest (NCI) amounted to P6.2 million for the first quarter of 2019 compared with P3.02 million in 2018 primarily due to minority share in net income for the period.

### **Financial Position**

Cash and cash equivalents amounted to P3,501 million as of March 31, 2019 up by 43% from P2,455 million as of December 31, 2018. Cash was primarily provided from operating activities mainly from decrease in other current assets and trade and other receivables.

Trade and other receivables reached P565 million as of March 31, 2019 against P891 million as of December 31, 2018, a decrease of 37% from collection of receivables of the myphone business. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties stood at P9.3 million as of March 31, 2019 and P9.4 million as of December 31, 2018. There was no material change for this account.

Merchandise inventories and supplies - net amounted to P704 million as of March 31, 2019, compared with P764 million as of December 31, 2018 mainly from lower merchandise and finished goods for digital products.

Real estate inventories stood at P438 million as of March 31, 2019 and P436 million as of December 31, 2018. There was no material change for this account.

Other current assets was down to P240 million as of March 31, 2019 compared with P1,057 million as of December 31, 2018 mainly due to reclassification of short term placements to cash and cash equivalent.

Total current assets reached P5,459 million as of March 31, 2019 from P5,615 million as of December 31, 2018 mainly from lower other current assets and trade and other receivables offset by higher cash and cash equivalents as discussed above.

Non-current trade and other receivables stood at P738 million as of March 31, 2019 from P739 million as of December 31, 2018. There was no material change for this account.

Financial assets at fair value through other comprehensive income amounted to P27.1 million as of March 31, 2019 and December 31, 2018. There was no change for this account.

Property and equipment amounted to P1,739 million as of March 31, 2019 from P1,762 million as of December 31, 2018. There was no material change for this account.

Investment property increased to P3,435 million as of March 31, 2019 from P3,406 as of December 31, 2018. There was no material change for this account.

Post-employment benefit assets stood at P 126 million as of March 31, 2019 and December 31, 2018. There was no change for this account.

Deferred tax assets - net amounted to P175 million as of March 31, 2019 and P156 million as of December 31, 2018 mainly due to recognition of DTA from NOLCO of the digital mobile segment.

Other non-current assets amounted to P124 million as of March 31, 2019 and December 31, 2018. There was no material change for this account.

Total non-current assets amounted to P6,366 million as of March 31, 2019 from P6,343 million as of December 31, 2018 as discussed above.

**Total assets reached P11,826 million as of March 31, 2019 from P11,958 million as of December 31, 2018 as discussed above.**

Interest-bearing loans dropped to P70 million as of March 31, 2019 from P123 million as of December 31, 2018. The decrease of 43% was due to payment of outstanding interest-bearing loan.

Trade and other payables was down to P326 million as of March 31, 2019 against P422 million as of December 31, 2018, lower by 23% due to lower trade and other payables and accrued dealers' incentives.

Customers' deposits increased to P17 million as of March 31, 2019 versus P15 million as of December 31, 2018 from additional customers' deposits.

Advances from related parties stood at P1.8 million as of March 31, 2019 and December 31, 2018. No change for this account.

Income tax payable amounted to P13nmillion as of March 31, 2019 from P8 million as of December 31, 2018 mainly from tax expense for the period.

Total current liabilities decreased to P429 million as of March 31, 2019 from P571 million as of December 31, 2018 due to lower trade and other payables.

Non-current refundable deposits amounted to P27 million as of March 31, 2019 from P29 million as of December 31, 2018 from additional deposits.

Post-employment benefit obligation stood at to P26 million as of March 31, 2019 and as of December 31, 2018. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P781 million as of March 31, 2019 and P783 million as of December 31, 2018. There was no material change for this account.

Total non-current liabilities amounted to P 836 million as of March 31, 2019 from P839 million as of December 31, 2018.

**Total liabilities amounted to P1,266 million as of March 31, 2019 from P1,411 million as of December 31, 2018.**

Capital stock stood at P2,030 million as of March 31, 2019 and December 31, 2018.

Additional paid-in capital amounted to P4,641 million as of March 31, 2019 and December 31, 2018.

Treasury shares amounted to P115 million as of March 31, 2019 and December 31, 2018.

Revaluation reserves amounted to P42.6 million as of March 31, 2019 from P42.2 million as of December 31, 2018 due to gains on currency differences in translating financial statements of foreign operation.

Retained earnings increased to P3,601 million as of March 31, 2019 from P3,594 million as of December 31, 2018 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P10,200 million as of March 31, 2019 from P10,193 million as of December 31, 2018 mainly due to higher retained earnings.

Non-controlling interests amounted to P359 million as of March 31, 2019 from P353 million as of December 31, 2018 primarily due to minority share in net income for the period.

**Total equity amounted to P10,560 million as of March 31, 2019 from P10,547 million as of December 31, 2018.**

i. Known Trends or Demands, Commitments, Events or Uncertainties that will impact Liquidity.

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will materially impact on its liquidity.

ii. Events that will trigger Direct or Contingent Financial Obligation that is material to the Company, including any default or acceleration of an obligation.

As discussed in Notes of the financial statements under Contingencies, certain subsidiaries of the Company are involved in litigation or proceedings, the outcome of which could individually or taken as a whole, not adversely affect the financial results, operations or prospects of the Company. Except of these contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.

iii. Material Off-Balance Sheet Transactions, Arrangements, Obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

The Company has no material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period that is not included in the financial statements.

iv. Material Commitments for Capital Expenditures, the general purpose of the Commitment and Expected Sources of Funds



The Company estimates capital expenditures for the year 2019 to amount to P400 million for various real estate development, renovation and upgrade of facilities. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

- v. Known Trends, Events or Uncertainties that will impact Sales/Revenues/Income from Continuing Operations

None

- vi. Significant elements of Income or Loss that did not arise from Continuing Operations

None

- vii. Causes for any Material Changes from Period to Period

Discussion of the material changes for each account is included in the Management Discussion and Analysis

Based on the appraisal reports obtained in 2018 the Company reported fair value gains on investment property of P276 million during the year.

- viii. Seasonal Aspects that had Material Effect on the Financial Condition or Results of Operations

There were no significant seasonality in the Company's business that materially affects financial condition or results of operations.

## **PART II –OTHER INFORMATION**

None

## **SIGNATURES**

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

**SOLID GROUP INC.**



**SUSAN L. TAN**

President & Chief Executive Officer



**VINCENT S. LIM**

SVP & Chief Financial Officer

May 20, 2019

# **Solid Group Inc. and Subsidiaries**

Unaudited Consolidated Financial Statements as of March 31, 2019  
and for the Three Months Ended March 31, 2019 and 2018

(with Comparative Audited Consolidated Statements of Financial  
Position as of December 31, 2018)

SOLID GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
MARCH 31, 2019 AND DECEMBER 31, 2018  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	P 3,501,864,286	P 2,455,464,411
Trade and other receivables - net	6	565,285,523	891,990,648
Advances to related parties	24	9,326,378	9,445,656
Merchandise inventories and supplies - net	8	704,394,828	764,706,452
Real estate inventories - net	9	438,488,938	436,377,201
Other current assets	12	<u>240,582,932</u>	<u>1,057,074,401</u>
Total Current Assets		<u>5,459,942,885</u>	<u>5,615,058,769</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	6	738,288,915	739,407,669
Financial assets at FVOCI	7	27,100,000	27,100,000
Property and equipment - net	10	1,739,710,849	1,762,625,470
Investment properties - net	11	3,435,196,036	3,406,441,906
Post-employment benefit asset	20	126,389,451	126,389,451
Deferred tax assets - net	21	175,342,539	156,709,132
Other non-current assets - net	12	<u>124,782,311</u>	<u>124,715,885</u>
Total Non-current Assets		<u>6,366,810,101</u>	<u>6,343,389,513</u>
<b>TOTAL ASSETS</b>		<u>P 11,826,752,986</u>	<u>P 11,958,448,282</u>

	Notes	2019	2018
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans	13	P 70,685,762	P 123,790,100
Trade and other payables	14	326,804,250	422,162,690
Customers' deposits	2	17,188,804	15,574,861
Advances from related parties	24	1,881,549	1,881,570
Income tax payable		13,236,319	8,455,832
Total Current Liabilities		429,796,684	571,865,053
<b>NON-CURRENT LIABILITIES</b>			
Refundable deposits	15	27,869,556	29,298,575
Post-employment benefit obligation	20	26,716,443	26,716,443
Deferred tax liabilities - net	21	781,933,144	783,280,873
Total Non-current Liabilities		836,519,143	839,295,891
Total Liabilities		1,266,315,827	1,411,160,944
<b>EQUITY</b>			
Equity attributable to the Parent Company's stockholders			
Capital stock	22	2,030,975,000	2,030,975,000
Additional paid-in capital	2	4,641,701,922	4,641,701,922
Treasury shares - at cost	22	( 115,614,380 )	( 115,614,380 )
Revaluation reserves	22	42,676,944	42,225,155
Retained earnings	22	3,601,049,861	3,594,573,885
Total equity attributable to the Parent Company's stockholders		10,200,789,347	10,193,861,582
Non-controlling interests	2	359,647,812	353,425,756
Total Equity		10,560,437,159	10,547,287,338
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 11,826,752,986</b>	<b>P 11,958,448,282</b>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	Notes	2019	2018
<b>REVENUES</b>			
Sale of goods	2	P 389,347,238	P 529,252,912
Rendering of services	24, 26	163,149,802	151,559,314
Rentals	11, 24, 26	65,071,537	60,808,818
Interest	6, 19, 24	41,628,571	17,323,350
Sale of real estate	2	-	9,771,429
		<u>659,197,148</u>	<u>768,715,823</u>
<b>COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS</b>			
Cost of sales	16	356,141,945	417,576,467
Cost of services	16	130,400,408	124,116,492
Cost of rentals	11, 16	39,548,129	30,983,378
Cost of real estate sold	16	-	6,186,779
		<u>526,090,482</u>	<u>578,863,116</u>
<b>GROSS PROFIT</b>		<u>133,106,666</u>	<u>189,852,707</u>
<b>OTHER OPERATING EXPENSES (INCOME)</b>			
General and administrative expenses	17	92,277,624	93,764,904
Selling and distribution costs	17	56,161,448	62,190,410
Other operating income - net	18	( 12,517,552 )	( 5,754,189 )
		<u>135,921,520</u>	<u>150,201,125</u>
<b>OPERATING PROFIT (LOSS)</b>		<u>( 2,814,854 )</u>	<u>39,651,582</u>
<b>OTHER INCOME (CHARGES)</b>			
Finance costs	19	( 3,020,889 )	( 913,691 )
Finance income	19	14,980,924	33,428,707
Other gains - net	19	( 250,877 )	2,670,029
		<u>11,709,158</u>	<u>35,185,045</u>
<b>PROFIT (LOSS) BEFORE TAX</b>		8,894,304	74,836,627
<b>TAX EXPENSE (INCOME)</b>	21	( 3,803,728 )	21,670,487
<b>NET PROFIT (LOSS)</b>		<u>P 12,698,032</u>	<u>P 53,166,140</u>
<b>Net Profit (Loss) for the period attributable to the:</b>			
Parent Company's stockholders	23	P 6,475,976	P 50,137,033
Non-controlling interests		<u>6,222,056</u>	<u>3,029,107</u>
		<u>P 12,698,032</u>	<u>P 53,166,140</u>
<b>Earnings (Loss) per share attributable to the Parent Company's stockholders</b>	23	<u>P 0.004</u>	<u>P 0.03</u>

*See Notes to Consolidated Financial Statements.*

SOLID GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018  
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
NET PROFIT (LOSS)	P	<u>12,698,032</u>	<u>P 53,166,140</u>
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified subsequently to profit or loss:			
Currency exchange differences on translating financial statements of foreign operations		451,789	18,358,136
		<u>-</u>	<u>-</u>
Other comprehensive income (loss) – net of tax		<u>451,789</u>	<u>18,358,136</u>
TOTAL COMPREHENSIVE INCOME	P	<u>13,149,821</u>	<u>P 71,524,276</u>
Total comprehensive income (loss) attributable to:			
Parent Company's stockholders	P	6,927,765	P 68,495,169
Non-controlling interests		<u>6,222,056</u>	<u>3,029,107</u>
	P	<u>13,149,821</u>	<u>P 71,524,276</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS</b>			
<b>CAPITAL STOCK</b> - P1 par value			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares			
Outstanding - 1,821,542,000 shares	P	2,030,975,000	P 2,030,975,000
<b>ADDITIONAL PAID-IN CAPITAL</b>		4,641,701,922	4,641,701,922
<b>TREASURY SHARES</b> - at cost			
Acquired at P0.5520 per share - 209,433,000 shares	(	115,614,380	( 115,614,380)
<b>REVALUATION RESERVES</b>			
Balance at beginning of year		42,225,155	( 15,778,108)
Other comprehensive income (loss) for the period		451,789	18,358,136
Balance at end of the period		42,676,944	2,580,028
<b>RETAINED EARNINGS (DEFICIT)</b>			
Balance at beginning of year			
As previously reported		3,594,573,885	3,398,699,549
Effect of adoption of PFRS 15			68,304,647
Effect of adoption of PFRS 9		-	( 9,831,510)
As restated		3,594,573,885	3,457,172,686
Profit (loss) for the period attributable to			
Parent Company's stockholders		6,475,976	50,137,033
Cash dividends		-	-
Balance at end of the period		3,601,049,861	3,507,309,719
Total Equity Attributable to the Parent Company's stockholders		10,200,789,347	10,066,952,289
<b>NON-CONTROLLING INTERESTS</b>			
Balance at beginning of year		353,425,756	345,976,849
Profit (loss) for the period attributable to			
Non-controlling interests		6,222,056	3,029,107
Balance at end of the period		359,647,812	349,005,956
<b>TOTAL EQUITY</b>	P	10,560,437,159	P 10,415,958,245
<b>Total comprehensive income (loss) for the period attributable to:</b>			
Parent Company's stockholders	P	6,927,765	P 68,495,169
Non-controlling interests		6,222,056	3,029,107
	P	13,149,821	P 71,524,276

*See Notes to Consolidated Financial Statements.*



**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	Notes	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit (loss) before tax		8,894,304	74,836,627
Adjustments for:			
Interest income	(	52,821,448 )	( 27,729,357 )
Depreciation and amortization		25,967,677	21,739,165
Impairment losses (reversal) on trade and other receivables		138,321	
Interest expense		1,055,922	806,066
Loss (reversal) on inventory obsolescence		-	( 210,586 )
Unrealized foreign currency losses (gains) - net	(	2,806,360 )	( 20,346,163 )
Fair value loss (gain) on investment property - net		672,053	14,074,108
Loss (gain) on sale of property and equipment		1,217,612	-
Operating profit before working capital changes	(	17,681,919 )	63,169,860
Decrease (increase) in trade and other receivables		352,055,591	562,086,209
Decrease (increase) in merchandise inventories and supplies		60,311,624	( 248,507,730 )
Decrease (increase) in real estate inventories	(	2,111,737 )	4,549,320
Decrease (increase) in advances to related parties		119,278	( 2,856,741 )
Decrease (increase) in other current assets		816,491,469	( 27,314,883 )
Decrease (increase) in other non-current assets	(	66,426 )	( 9,865,136 )
Increase (decrease) in trade and other payables	(	90,184,920 )	( 134,296,797 )
Increase (decrease) in customers' deposits		1,613,943	( 5,053,443 )
Increase (decrease) in advances from related parties	(	21 )	( 1,911,557 )
Increase (decrease) in refundable deposits	(	1,429,019 )	( 1,101,930 )
Increase (decrease) in retirement benefit obligation		-	-
Cash generated from (used in) operations		1,119,117,863	198,897,173
Interest received		12,179,756	10,348,373
Cash paid for income taxes	(	5,010,571 )	( 4,424,958 )
Net Cash From (Used in) Operating Activities		1,126,287,048	204,820,588
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (acquisitions) of property and equipment	(	4,270,668 )	( 17,766,233 )
Interest received		8,954,301	8,324,805
Decrease (acquisitions) of available-for-sale financial assets		-	( 261,767 )
Decrease (additions) to investment property	(	29,426,183 )	( 4,637,833 )
Net Cash From (Used in) Investing Activities	(	24,742,550 )	( 14,341,027 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from (repayments of) interest-bearing loans - net	(	53,182,012 )	6,827,992
Interest paid	(	4,768,972 )	( 1,420,823 )
Net Cash From (Used in) Financing Activities	(	57,950,984 )	5,407,169
Effect of Currency Rate Changes on Cash and Cash Equivalents		2,806,360	20,346,163
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,046,399,874	216,232,893
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,455,464,411	3,490,600,099
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P	3,501,864,285	P 3,706,832,992

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2019 AND DECEMBER 31, 2018**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 Group Background**

Solid Group Inc. (SGI or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (“the Commission”) on October 16, 1933.

On February 22, 1982, the Commission approved the extension of SGI’s corporate life for another 50 years. SGI currently conducts business as an investment holding Company. On September 4, 1996, SGI listed its shares of stock in the Philippine Stock Exchange (PSE).

The Parent Company holds ownership interests in the following subsidiaries (the Parent Company and the subsidiaries are collectively referred to herein as “the Group”):

Subsidiaries	Percentage of Ownership		Notes	Nature of Business
	2019	2018		
Brilliant Reach Limited (BRL)	100	100	a	Investment holding company
Green Sun Hotel Management, Inc. (GSHMI)	100	100	b	Hotel and restaurant operation
Kita Corporation (Kita)	100	100		Leasing of real estate properties
My Solid Technologies & Devices Corporation (My Solid)	100	100		Sale of mobile phones and accessories
Omni Solid Services, Inc. (OSSI)	100	100		Logistics and assembly of consumer electronics products
Precos, Inc. (Precos)	100	100	c	Real estate
Solid Broadband Corporation (SBC)	100	100		Broadband, cable and satellite services
SolidService Electronics Corporation (SEC)	100	100		Repair services for audio and video products
Solid Group Technologies Corporation (SGTC)	100	100		Trading of pre-fabricated modular house and office units
Solid Manila Corporation (SMC)	100	100		Real estate
Solid Manila Finance, Inc. (SMFI)	100	100		Financing
Solid Video Corporation (SVC)	100	100		Trading of professional audio/video equipment
Zen Towers Corporation (ZTC)	100	100		Real estate
MyApp Corporation (MyApp)	100	100	c	Investment holding company
Casa Bocobo Hotel, Inc. (CBHI)	100	100	d	Hotel and restaurant operation
Skyworld Corporation (Skyworld)	75	75	d, c	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	73	73	d	Investment holding company
Starworld Corporation (Starworld)	50	50	d, e	Real estate
Laguna International Industrial Park, Inc. (LIIP)	50	50	d, f	Real estate

Notes:

- (a) Incorporated and domiciled in the British Virgin Islands
- (b) Incorporated on December 19, 2016
- (c) Pre-operating or non-operating
- (d) Indirectly owned through SMC
- (e) Starworld is 20% owned by SMC and 40% owned by Skyworld
- (f) LIIP is 22.5% owned by SMC and 37.5% owned by Interstar

SBC holds a provisional authority, granted by the National Telecommunications Commission, to use its legislative franchise under Republic Act (RA) No. 9116, *An Act Granting Solid Broadband Corporation a Franchise to Construct, Install, Establish, Operate and Maintain Telecommunications Systems throughout the Philippines* (see Note 25.3).

SMFI is subject to the rules and regulations provided under RA No. 8556, *The Financing Group Act of 1998* (see Note 30).

## **1.2 Status of Operation**

On April 1, 2014, the Board of Directors (BOD) and stockholders of SMC approved the amendment to its Articles of Incorporation to include hotel operations in its secondary purpose. The amendment was approved by the Commission on April 4, 2014.

Subsequently, on October 29, 2014, Green Sun officially started its hotel and related business operations as a division under SMC. The Hotel offers 144 guest rooms, penthouse suites, food and beverage outlet, seven function rooms and two large event venues situated at 2285 Don Chino Roces Avenue, Makati City. In relation to this, SMC signed an agreement with CBHI for the management of the hotel's properties and operations. On December 19, 2016, Green Sun Hotel Management Inc. was incorporated for the management of Green Sun properties and operations.

On September 8, 2017, BOD of SEC approved the resolution changing its corporate name to SolidService Electronics Corporation. Consequently, on September 28, 2018, the Commission approved this resolution.

## **1.3 Other Corporate Information**

The registered offices and principal places of business of the Parent Company and its subsidiaries, except those listed below, are located at 2285 Don Chino Roces Avenue, Makati City. The registered offices and principal places of business of the other subsidiaries are as follows:

BRL	-	2 <sup>nd</sup> Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	-	Solid St., LIIP, Mamplasan, Biñan, Laguna
SEC	-	145 G. Araneta, Brgy. Tatalon, Quezon City
SMC and CBHI	-	1000 J. Bocobo corner T.M. Kalaw St., Ermita, Manila
Starworld	-	CPIP Brgys. Batino & Prinza, Calamba, Laguna
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79, District 5, Ermita, Manila

## **1.4 Approval for Issuance of Consolidated Financial Statements**

The consolidated financial statements of the Group as of and for the year ended December 31, 2018 (including the comparative consolidated financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Parent Company's BOD on April 4, 2019.

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

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. These 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, and approved by the 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.

### (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 consolidated statement of comprehensive income separate from the consolidated statement of income.

In 2018, the Group adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Group not to restate its prior periods' financial statements. Accordingly, the adoption of this new accounting standard did not require the Group to present its third statement of financial position. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Retained Earnings or other components of equity in the current year as shown in the table below.

Further, the Group adopted PFRS 15, *Revenue from Contracts with Customers*, which was applied using the modified retrospective approach under which changes having a material retrospective restatements on certain accounts in the statement of financial position as at January 1, 2018 are presented together as a single adjustment to the opening balance of Retained Earnings as shown in the table below.

Accordingly, the adoption of these two new accounting standards did not require the Group to present its third statement of financial position.

The table below shows the impact of the adoption of PFRS 9 and 15 to the Group's total equity as of January 1, 2018.

	<u>Retained Earnings</u>	<u>Effects on Revaluation Reserves</u>	<u>Total Equity</u>
Balance at January 1, 2018	P 3,398,699,549	(P 15,778,108)	P 10,285,960,832
Impact of PFRS 9 [see Note 2.2(a)(ii)]:			
Effect of reclassification and remeasurements of financial assets	-	242,742	242,742
Increase in allowance for credit losses on trade and other receivables and refundable deposits	( 12,475,923)	-	( 12,475,923)
Total impact from remeasurement	( 12,475,923)	242,742	( 12,233,181)
Increase in deferred tax asset arising from:			
Remeasurements of financial assets	-	( 72,823)	( 72,823)

Increase in credit loss allowance	<u>2,644,413</u>	<u>-</u>	<u>2,644,413</u>
	( <u>9,831,510</u> )	<u>169,919</u>	( <u>9,661,591</u> )
Impact of PFRS 15 [see Note 2.2(a)(iii)]: Reversal of estimated liability for land and land development costs	<u>68,304,647</u>	<u>-</u>	<u>68,304,647</u>
	<b><u>P 3,457,172,686</u></b>	<b><u>(P 15,608,189)</u></b>	<b><u>P10,344,603,888</u></b>

(c) *Functional and Presentation Currency*

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

Items included in the consolidated financial statements of the Group are measured using the Group's functional currency, which 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 new PFRS, interpretation and amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
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 standards, interpretation, amendment and improvement.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments 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 FVOCI.
- (iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Group’s consolidated financial statements.

- (iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The 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.

- (v) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). 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 all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
  - PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. 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 in 2019 but not Relevant to the Group*

The amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the Group's financial statements are presented below.

- (i) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). 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.

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

There are new PFRS, interpretation, amendments and annual improvements 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) 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**

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.1, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses 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.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles. The Parent Company accounts for its investments in subsidiaries and non-controlling interests (NCI) as presented as follows:

#### *(a) Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when it has power over the investee, 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 Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three 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 NCI 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 Parent Company, 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 NCI in the acquiree, either at fair value or at the NCI's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of 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 2.14).



(b) *Transactions with 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 profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in 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 other comprehensive income are reclassified to profit or loss.

## **2.4 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee, its chief operating decision-maker. The Executive Committee 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 as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements, except that post-employment benefit expenses are not included in arriving at the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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

## **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 and Measurement of Financial Assets in Accordance with PFRS 9*

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

(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 solely payments of principal and interest 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, 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, Trade and Other Receivables, Advances to Related Parties, Refundable deposits and Short-term placements (presented as part of Other Current Assets) and Cash bond (presented as part of Other Non-current Asset account). Cash and cash equivalents include cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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. 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 income as part of Interest Income or Finance Income account.

With respect to cash surrender value of life insurance, income is recognize when the related increase in cash surrender value occurs and becomes determinable.

(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 FVTPL. The Group has designated equity instruments as at FVOCI on initial application of PFRS 9.

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 costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to 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 profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Other Gains account, 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, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

(b) *Classification and Measurement of Financial Assets in Accordance with PAS 39*

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, Held-to-maturity (HTM) investments and AFS financial assets.

A more detailed description of the categories of financial assets relevant to the Group as of and for the year ended December 31, 2017 and prior years follows:

(i) *Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial

assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

*(ii) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to suppliers), Advances to Related Parties and Refundable deposits and Short-term placements (presented as part of Other Current Assets) and Cash bond (presented as part of Other Non-current Asset account), in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

*(iii) AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets presented as AFS financial assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period. The Group's AFS financial assets include proprietary membership club shares and unquoted equity securities.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss. Dividends on equity instruments are recognized in profit or loss when the Group's right to receive payment is established.

A financial asset is reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term or under rare circumstances. A financial asset that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(c) *Impairment of Financial Assets Under PFRS 9*

From January 1, 2018, the Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables. 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 27.2(b)].

For debt instruments measured at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL for a purchased or originated credit impaired, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Group recognized a loss allowance for such losses at each reporting date.

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

- (i) *Probability of default (PD)* – It is an estimate of likelihood of default over a given time horizon.
- (ii) *Loss given default (LGD)* – 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.
- (iii) *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(d) *Impairment of Financial Assets Under PAS 39*

In 2017 and prior year, the Group's assessed impairment of financial assets as follows:

*(i) Carried at Amortized Cost – Loans and Receivables*

Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the agreement. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

*(ii) Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

*(iii) Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

*(e) Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Income or Finance Costs account in the consolidated statement of income.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(f) *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 Merchandise Inventories and Supplies**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Merchandise inventories, service parts, supplies, and others include 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 of merchandise inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of spare parts, supplies and others is the current replacement cost.

## **2.7 Real Estate Inventories**

Real estate inventories consist of the following:

(a) *Land and Land Development Costs*

Land and land development costs include the acquisition cost of raw land intended for future development and sale, as well as other costs and expenses incurred to effect the transfer of title of the property.

(b) *Property Development Costs*

Property development costs include the cost of land used as a building site for a condominium project and the accumulated costs incurred in developing and constructing the property for sale.

Land and land development costs and property development costs are carried 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 of completion and the estimated costs necessary to make the sale.

## **2.8 Other Assets**

Other assets except those classified as financial assets, pertain to other resources controlled by the Group as a result of past events. They are recognized 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 non-current assets.

## ***2.9 Property and Equipment***

Property and equipment, except land, are carried at acquisition cost or construction cost less subsequent depreciation, amortization and any impairment losses. Land held for use in production or administration is stated at cost less any impairment losses.

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 is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10 to 25 years
Test, communication and other equipment	5 to 20 years
Machinery and equipment	5 to 10 years
Transportation equipment	5 years
Computer system	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Tools and equipment	2 to 3 years

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.21) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

Leasehold improvements are amortized over the estimated useful lives of the assets from two to 15 years or the terms of the relevant leases, whichever is shorter.

Fully depreciated and amortized assets are retained in the accounts until they 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 2.19).

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.

An item of property and equipment, including the related accumulated depreciation, amortization and any impairment losses, 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 the consolidated statement of income in the year the item is derecognized.



## ***2.10 Intangible Assets***

Intangible assets presented under Other Assets, include nonproprietary club shares 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. These are recognized 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. The Group's nonproprietary club shares are assessed as having indefinite useful life and is tested annually for any impairment. 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 2.19).

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

## ***2.11 Investment Property***

Investment property represents property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under the fair value model. It is revalued annually and is included in the consolidated statement of financial position at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property (see Note 11).

Investment property, which consists mainly of land and improvements, and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs.

Transfers from property and equipment to investment property occurs as a result of change in actual use of property.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains or losses on investment property under the Other Operating Expenses (Income) section in the consolidated statement of income.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

For tax purposes, investment property is carried at cost less accumulated depreciation computed on a straight-line basis over the estimated net useful lives of the assets ranging from 11 to 25 years.

## ***2.12 Financial Liabilities***

Financial liabilities, which include interest-bearing loans, trade and other payables (excluding tax-related liabilities, advances from customers and reserve for warranty costs), advances from related parties and refundable deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

Interest-bearing loans are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to 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 they are not settled in the period in which they arise.

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

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company'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 liability for at least 12 months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are 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 profit or loss.

### ***2.13 Offsetting 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 a 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.

### ***2.14 Business Combinations***

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

The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the consolidated financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for the subsequent measurement in accordance with the Group's accounting policies.

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. 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 2.19).

Negative goodwill, which is the excess of the Group's interest in the net fair value of the net identifiable assets acquired over acquisition cost, is charged directly to 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 profit or loss or 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 profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

### ***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 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 Revenue and Expense Recognition***

Revenue comprises revenue from sale of goods and real estate and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for the goods sold and services rendered, excluding value-added tax (VAT) and trade discounts.

In 2018, to determine whether to recognize revenue, the Group follows a five-step process:

- (1) identifying the contract with a customer;
- (2) identifying the performance obligation;
- (3) determining the transaction price;
- (4) allocating the transaction price to the performance obligations; and,
- (5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be 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 Group often enters into transactions involving the sale of goods and real estate, and rendering of services. 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 uses the practical expedient in PFRS 15 with respect to non-disclosure of the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting period and the explanation of when such amount will be recognized as revenue as the Group's contracts with customers have original expected duration of one year or less, except for real estate sales.

In addition, the following specific recognition criteria must also be met before revenue is recognized [significant judgments in determining the timing of satisfaction of the following performance obligations are disclosed in Note 3.1(a)]:

- (a) *Rendering of services (other than commission income)* – Revenue from rendering of services is recognized by the amount in which the Group has a right to invoice that corresponds directly with the value of services rendered that is completed over a period in time.
- (b) *Sale of goods* – Revenue is recognized at a point in time. This is generally when the customer has taken undisputed delivery of goods.

- (c) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support, which is a fixed amount per month as indicated in the contract, is accrued at the end of each month.
- (d) *Sale of real estate* – Revenues from real estate sales are recognized over time proportionate to the progress of the project development. Under this method, revenue 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, whether completed or ongoing projects, is recognized as revenue when 25% 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 sale, payments received from buyers are presented under the Customers Deposits under current liabilities section in the consolidated statement of financial position.

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. Any rights to consideration recognized by the Group as it develops the property are presented as Contract Assets 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.

Any consideration received by the Group in excess of the amount for which the Group is entitled is presented as Contract Liabilities 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.

- (e) *Commission income (shown as part of Rendering of Services)* – Revenue from rendering of services and other fees is recognized when the performance of contractually agreed tasks have been substantially rendered.
- (f) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.

Further, the Group provides a product warranty for a period of 15 months from the time of sale on its sales of goods related to hidden and manufacturer's defect. Under the terms of this warranty, customers can return the product for repair or replacement if it fails to perform in accordance with published specifications. These warranties are accounted for under PAS 37. However, if the Group is required to refund the related purchase price for returned goods, it recognizes a refund liability for the expected refunds by adjusting the amount of revenues recognized during the period.

In 2017 and prior periods, the Group recognized revenues based on the provisions of PAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Group.

Cost and expenses are recognized in the consolidated statement of income upon receipt of the goods or utilization of services or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income on an accrual basis, except capitalized borrowing costs, which are included as part of the cost of the related qualifying asset (see Note 2.21).

### ***2.17 Leases***

The Group accounts for its leases as follows:

*(a) Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and rewards 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 the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

*(b) Group as Lessor*

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

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 asset or assets and the arrangement conveys a right to use the asset.

### ***2.18 Foreign Currency Transactions and Translation***

*(a) Transactions and Balances*

The accounting records of the Group, except BRL, are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. The accounting records of BRL are maintained in United States dollar (USD).

Foreign currency exchange 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 the consolidated statement of income as part of Finance Income or Finance Costs.

*(b) Translation of Financial Statements of Foreign Subsidiary*

The operating results and financial position of BRL are translated to Philippine pesos, the Group's functional and presentation currency, as presented in the below and in the succeeding page.

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;*

- (ii) Income and expenses for each statement of income account are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in BRL are recognized in other comprehensive income and taken to equity under Revaluation Reserves. When a foreign operation is partially disposed of or sold, such exchange differences are reclassified in the consolidated statement of income as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the consolidated financial statements into Philippine pesos should not be construed as a representation that the USD amounts could be converted into Philippine pesos amounts at the translation rates or at any other rates of exchange.

### ***2.19 Impairment of Non-financial Assets***

The Group's property and equipment, intangible assets and other non-financial assets are subject to impairment testing 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, assets are tested for impairment either individually or at the cash-generating unit level.

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. Except for impairment losses on goodwill, an impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

### ***2.20 Employee Benefits***

The Group provides post-employment benefits to employees through a defined benefit plan, as well as defined contribution plans, and other employee benefits which are recognized as follows.

- (a) *Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment 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 post-employment 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 post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee-bank.

The asset recognized in the consolidated statement of financial position for post-employment defined benefit plans is the fair value of plan assets less the present value of the defined benefit obligation (DBO) at the end of the reporting period. The DBO is calculated annually by an independent actuary using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)] in 2018 (Philippine Dealing & Exchange Corp. in 2017), 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.

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 reflected immediately in the consolidated statement of financial position with a charge or credit recognized in 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 account of 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 Other Gains – Net under the Other Income (Charges) section in the consolidated statement of income.

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

*(b) Post-employment Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

*(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 at the earlier of 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 end of the reporting period are discounted to their present value.

*(d) Profit-sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, 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) 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.

## **2.21 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 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 and borrowing costs 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.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

## **2.22 Income Taxes**

Tax expense recognized in the consolidated statement of income comprises the sum of current tax and deferred tax not recognized in 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 the 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 the consolidated statement of income.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each 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 differences 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 to 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 liabilities and assets reflects 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. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in 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.

### ***2.23 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 retirement plan.

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

### ***2.24 Equity***

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

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

Revaluation reserves comprise the remeasurements of post-employment defined benefit plan, cumulative translation adjustments on financial statements of foreign subsidiaries and unrealized fair value gains (losses) arising from the revaluation of certain financial assets at FVOCI, previously as AFS financial assets.

Retained earnings, the appropriated portion of which is not available for distribution, represent all current and prior period results of operations as reported in the consolidated statement of income, reduced by the amounts of dividends declared, if any.

NCI represent the portion of net assets and profit or loss not attributable to the Parent Company's stockholders which are presented separately in the Group's consolidated statement of income and consolidated statement of comprehensive income and within equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity.

### ***2.25 Earnings Per Share***

Basic earnings per share (EPS) is computed by dividing net profit attributable to the Parent Company's stockholders by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period. Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

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

Any post-year-end event that provides additional information about the Group's consolidated 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 JUDGMENTS AND ESTIMATES**

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 the circumstances. Actual results may ultimately differ 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 below and in the succeeding pages, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Determination of Timing of Satisfaction of Performance Obligations (2018)*

(i) *Rendering of Services*

The Group determines that its revenue from rendering of services shall be recognized over time. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided by the Group to the customers. The Group provides the services without the need of reperformance of other companies. This demonstrates that the customers simultaneously receive and consume the benefits of the Group's rendering of the services as it performs.

In determining the best method of measuring the progress of the Company's rendering of services, management considers the output method under PFRS 15 because it directly measures the value of the services transferred to the customer.

(ii) *Sale of Goods*

The Group determines that its revenue from sale of goods shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer has acknowledged delivery of the goods.

(iii) *Sale of Real Estate*

The Group determines that its revenue from sale of real estate shall be recognized over time, which is 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.

(b) *Determination of ECL on Trade and Other Receivables and Advances to Related Parties (2018)*

The Group uses a provision matrix to calculate ECL for trade and other receivables. The provision matrix is based on the Company'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).

Other portion of the Group's financial asset at amortized cost pertains to advances to related parties. In relation to this, PFRS 9 notes that the maximum period over which ECL should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of these advances to related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related parties' highly liquid assets in order to repay the Group's receivables if demanded at the reporting date taking into consideration the historical defaults of the related parties. If the Group cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of receivables can be collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized.

Details about the ECL on the Group's trade and other receivables and advances to related parties are disclosed in Notes 6 and 27.2.

(c) *Revenue Recognition Criteria on Real Estate Sales (2017)*

The Group recognizes revenues from real estate sales under the full accrual method. Under this method, critical judgment is made by management in determining whether the collectability of the sales price is reasonably assured. Management considers the collectability of real estate sales as reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

(d) *Evaluation of Impairment of AFS Financial Assets (2017)*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are permanently impaired as of December 31, 2017 as disclosed in Note 7. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(e) *Costing of Merchandise Inventories and Supplies*

The Group's inventory costing policies and procedures were based on a careful evaluation of present circumstances and facts affecting production operations. A review of the benchmarks set by management necessary for the determination of inventory costs and allocation is performed regularly. Actual data are compared to the related benchmarks and critical judgment is exercised to assess the reasonableness of the costing policies and procedures which are currently in place and to make the necessary revisions in light of current conditions.

(f) *Distinction between Investment Property, Owner-occupied Properties and Real Estate Inventories*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the properties but also to other assets used in the production or supply process. On the other hand, real estate inventories are properties intended to be sold in the normal course of business.

(g) *Distinction between Operating and Finance Leases*

The Group has entered into various lease agreements as either a 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 risk 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. Based on management's judgment, all of the Group's lease agreements were determined to be operating leases.

(h) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.15 and the disclosures on relevant provisions and contingencies are presented in Notes 26.

### **3.2 Key Sources of Estimation Uncertainty**

The following 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) Estimation of Allowance for ECL (2018)*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 6.

*(b) Impairment of Trade and Other Receivables and Advances to Related Parties (2017)*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, their current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimate and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6. Meanwhile, there were no impairment losses recognized on advances to related parties for the years ended December 31, 2017 based on management's assessment (see Note 24.4).

*(c) 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 values of the Group's financial assets at FVOCI (previously, AFS financial assets) and the amounts of fair value changes recognized on those assets are disclosed in Note 7.

*(c) Determination of Net Realizable Value of Merchandise Inventories and Supplies*

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, modular houses, broadcast

equipment and accessories (see Note 8). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next reporting period.

(d) *Determination of Net Realizable Value of Real Estate Inventories*

The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of real estate inventories. Net realizable value for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. Net realizable value in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

The carrying amounts of the real estate inventories are disclosed in Notes 8 and 9.

(e) *Estimation of Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment are analyzed in Note 10. Based on management's assessment as at December 31, 2018, there is no change in the estimated useful lives of property and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(f) *Fair Value Measurement of Investment Property*

The Group's investment property, which consists of parcels of land and improvements and buildings and improvements, are carried at fair value at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 29.4.

For investment properties with appraisals conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in these elements may affect prices and the value of the assets. The amounts of fair value gains recognized on investment property are disclosed in Notes 11 and 18.

(g) *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 asset to be utilized.

The carrying value of recognized deferred tax assets, which management assessed may be fully utilized in the coming years, as at December 31, 2018 disclosed in Note 21.2. Certain deferred tax assets, however, were not recognized since management believes that there is no assurance that the related tax benefits will be realized in the coming years.

(b) *Impairment of Non-financial 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 2.19). 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 those 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.

(i) *Estimation of Reserve for Warranty Costs*

The Group offers warranty, for a period ranging from one to two years, for each consumer electronic product sold. Management estimates the related provision for future warranty costs based on a certain percentage of sales, as determined based on historical warranty claim information as well as recent trends that might suggest that past cost information may differ from expectations. Warranty costs also include the actual cost of materials used in repairing the electronic products.

The amounts of provision for warranty claims recognized and the outstanding balance of Reserve for warranty costs, which is presented as part of Trade and Other Payables account in the consolidated statements of financial position, are disclosed in Note 14.

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

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20.2 and include, among others, discount rates and expected rate of salary increases. 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 asset and obligation in the next reporting period.

The amounts of the fair value of the retirement benefit asset and present value of retirement benefit obligation and the analysis of the movements in the fair value of the retirement benefit asset and present value of retirement benefit obligation, as well as the significant assumptions used in estimating such asset and obligation are presented in Note 20.2.



## 4. SEGMENT INFORMATION

### **4.1 Business Segments**

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are presented below.

- (a) Digital mobile is involved in the sale of mobile phones and devices;
- (b) Property and building services is involved in the leasing, development and sale of industrial and other real estate properties, sale of prefabricated modular houses and hotel and restaurant operations;
- (c) Technical support and solutions is presently engaged in the business of sale of professional audio and video equipment, after sales services, warehousing and distribution; and,
- (d) Investment and others include investment holding companies, and those included in the business of financing and credit extension.

Segment accounting policies are the same as the policies described in Note 2.4.

### **4.2 Segment Assets and Liabilities**

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

### **4.3 Intersegment Transactions**

Segment revenues, expenses and performance include sales and purchases between business segments, such sales and purchases are eliminated in the consolidation.

### **4.4 Analysis of Segment Information**

The following tables present certain asset and liability information regarding business segments as at March 31, 2019 and December 31, 2018 and the related revenue and profit information for each of the period ended March 31, 2019 and March 31, 2018 (amounts in thousands):

	<u>Digital Mobile</u>	<u>Property &amp; Building Services</u>	<u>Technical Support &amp; Solutions</u>	<u>Investment &amp; Others</u>	<u>Elimination</u>	<u>Total</u>
<b>2019</b>						
<b>SEGMENT RESULTS</b>						
Total revenues	P 322,177	P 128,105	P 189,155	P 54,419	(P 34,658)	P 659,197
Net profit (loss)	( <u>38,4288</u> )	<u>P 22,259</u>	<u>P 14,561</u>	<u>P 14,306</u>	<u>P -</u>	<u>P 12,698</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>						
Total assets	<u>P 1,682,201</u>	<u>P 6,415,987</u>	<u>P 886,439</u>	<u>P 8,585,196</u>	<u>(P 5,743,069)</u>	<u>P 11,826,753</u>
Total liabilities	<u>P 1,412,387</u>	<u>P 1,955,291</u>	<u>P 161,971</u>	<u>P 408,256</u>	<u>(P 2,671,588)</u>	<u>P 1,266,316</u>

	<u>Digital Mobile</u>	<u>Property &amp; Building Services</u>	<u>Technical Support &amp; Solutions</u>	<u>Investment &amp; Others</u>	<u>Elimination</u>	<u>Total</u>
<b>2018</b>						
<b>SEGMENT RESULTS</b>						
Total revenues	P 435,615	P 114,427	P 215,585	P 32,079	(P 28,990)	P 768,716
Net profit (loss)	<u>475</u>	<u>P 7,661</u>	<u>P 7,941</u>	<u>P 16,763</u>	<u>P 20,327</u>	<u>P 53,166</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>						
Total assets	<u>P 1,785,364</u>	<u>P 6,286,477</u>	<u>P 883,926</u>	<u>P 8,569,677</u>	<u>(P 5,566,996)</u>	<u>P 11,958,448</u>
Total liabilities	<u>P 1,477,122</u>	<u>P 2,039,172</u>	<u>P 174,019</u>	<u>P 407,494</u>	<u>(P 2,686,646)</u>	<u>P 1,411,161</u>

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at:

	<u>2019</u>	<u>2018</u>
Cash on hand and in banks	<b>P 238,627,383</b>	P 372,038,970
Short-term placements	<u><b>3,263,236,923</b></u>	<u>2,083,425,441</u>
	<u><b>P 3,501,864,286</b></u>	<u>P 2,455,464,411</u>

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 90 days and earn annual interests ranging from 0.5% to 6.5% in 2019 and 2018 (see Note 19.2).

The balance of short-term placements as of December 31, 2018 did not include P806.1 million which is shown as part of the Other Current Assets account in the consolidated statements of financial position (see Note 12). Such amount pertains to time deposits with maturity of more than three months. As of March 31, 2019, all time deposits had maturity of less than three months and consequently classified under Cash & Cash equivalents.

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2019	2018
Current:			
Trade receivables	24.5, 24.9, 24.10, 25.1		
	25.3	<b>P 213,732,509</b>	P 706,129,098
Advances to suppliers	24.5	<b>300,117,626</b>	163,978,574
Loans receivables	24.3	<b>40,608,592</b>	39,981,928
Rental receivables	24.2	<b>37,461,356</b>	14,497,908
Interest receivable		<b>28,998,847</b>	5,158,277
Receivable from officers and employees		<b>4,783,765</b>	1,745,636
Other receivables		<b>42,870,627</b>	63,648,705
		<b>668,573,322</b>	995,140,126
Allowance for impairment		<b>( 103,287,799)</b>	( 103,149,478)
		<b>565,285,523</b>	891,990,648
Non-current:			
Trade receivables		<b>13,643,069</b>	15,500,823
Loans receivables	24.3	<b>647,049</b>	703,665
Cash surrender value of investment in life insurance		<b>724,024,220</b>	723,228,605
		<b>738,314,339</b>	739,433,093
Allowance for impairment		<b>( 25,424)</b>	( 25,424)
		<b>738,288,915</b>	739,407,669
		<b>P 1,303,599,862</b>	P 1,631,398,317

Trade receivables include amounts of receivables related to the sold condominium units which are being paid for by the customers in monthly installments. The titles to the real estate properties sold remains with the Group until the receivables are fully collected. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.75% to 18.0% depending on the terms of payment.

Advances to suppliers mainly include advance payments made by My Solid for future purchases of mobile phone units and accessories (see Note 24.5). These also include advances made to various suppliers made by SVC for the purchase of pro-tapes, video and medical equipment and spare parts.

Interest income recognized on the Group's loans receivables are presented as part of Interest under the Revenues section of the consolidated statements of income. The effective interest rates on loans receivables range from 7.5% to 30.0% in 2018. Other receivables include amounts due from credit card companies for the sales of CCTV. This account also consist of unsecured, noninterest-bearing cash advances made to the ZTC's Unit Owners' Association for expenses incurred by the unit owners and rent receivables.

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The beneficiary of this investment in life insurance is the Parent Company and accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of financial position. Subsequently, any increase in cash surrender value is recognized as part of the Finance Income in the consolidated statements of income (see Note 19.2).

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 13).

All of the Group's trade and other receivables have been reviewed for indications of impairment. Based on management's assessment of the ECL using the simplified approach, certain trade receivables were found to be impaired; hence, adequate amount of allowance for impairment have been recognized.

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account comprises of the following:

	<u>2019</u>	<u>2018</u>
Club shares	<b>P 27,100,000</b>	P 27,100,000
Others		<u>-</u>
	<b><u>P 27,100,000</u></b>	<b><u>P 27,100,000</u></b>

The Parent Company has equity securities pertaining to its 33% equity ownership interest in the common stock of Sony Philippines, Inc. (SPI). This investment is related to the Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan which has expired on May 8, 2005. On April 11, 2005, the Parent Company received a formal notice of the expiry of the JVA. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration.

As a result of the above events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, it reclassified its remaining investment in shares of stock of SPI with total cost of P8.6 million to AFS financial assets in 2005, which was already fully provided with allowance for impairment. The Parent Company determined that the fair value of this investment is nil as of December 31, 2018.

On the other hand, the fair values of the Group's investments in club shares, which represent proprietary membership club shares, as at December 31, 2018 have been determined based on quoted prices in less active markets due to lack of trading activities among its participants (see Note 29.2).

Reclassification made pertains to certain financial assets at FVOCI, previously classified as AFS financial assets, that are non-proprietary club shares which should be treated as intangible assets under PAS 38, *Intangible Assets*. Accordingly, these investments were reclassified to intangible assets which is presented as part of Other Non-current Assets (see Note 12).

In 2018, SBC derecognized of certain equity securities with original cost of P0.4 million and fair value of P0.3 million as of December 31, 2017. The accumulated fair value loss amounting to P94,120 was derecognized from the Revaluation Reserves account while the related loss on disposal amounting to P0.4

million was recognized as a direct deduction against the Retained Earnings account in the 2018 statement of changes in equity (see Note 22.3).

## 8. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below.

	Notes	2019	2018
Merchandise inventories	16.1	P 738,928,783	P 798,017,743
Service parts, supplies and others	24.1	<u>44,093,397</u>	<u>45,316,061</u>
		<b>783,022,180</b>	843,333,804
Allowance for inventory obsolescence		( <u>78,627,352</u> )	( <u>78,627,352</u> )
		<b><u>P 704,394,828</u></b>	<b><u>P 764,706,452</u></b>

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as at March 31, 2019 and December 31, 2018.

## 9. REAL ESTATE INVENTORIES

This account is composed of:

	2019	2018
Land and land development costs:		
Land	P 4,265,299	P 4,265,299
Land development costs	<u>35,281,523</u>	<u>35,281,523</u>
	<b>39,546,822</b>	39,546,822
Allowance for impairment	( <u>2,022,800</u> )	( <u>2,022,800</u> )
	<b>37,524,022</b>	37,524,022
Property development costs – Construction in progress and development costs	<u>400,964,916</u>	<u>398,853,179</u>
	<b><u>P 438,488,938</u></b>	<b><u>P 436,377,201</u></b>

Land and land development costs pertain to cost of land and related improvements, held by Starworld and LIIP, which are held for sale. Property development costs pertain to the cost of land used as a building site and the accumulated construction costs of the condominium building project being developed by ZTC, which are also for sale.

The allowance for impairment recognized in prior years pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2018.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As at December 31, 2018, lot areas totaling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building (see Note 26.4). The construction was started by in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started, however, it has incurred expenses for the planning phase as of March 31 2019.

## 10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property and equipment at the beginning and end of 2018 and 2017 are shown below.

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Furniture, Fixtures and Office Equipment</u>	<u>Transportation Equipment</u>	<u>Test, Communication and Other Equipment</u>	<u>Computer System</u>	<u>Leasehold Improvements</u>	<u>Tools and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
March 31, 2019											
Cost	P 1,277,854,682	P 364,380,813	P 189,564,415	P 204,729,392	P 182,412,068	P 17,877,340	P 82,409,849	P 129,702,974	P 93,545,086	P 25,111,071	P 2,567,587,690
Accumulated depreciation and amortization	-	( 113,132,283)	( 126,373,336)	( 158,217,546)	( 110,911,046)	( 16,508,055)	( 78,359,183)	( 113,962,440)	( 61,066,704)	-	( 778,530,591)
Accumulated impairment losses	-	( 35,000,000)	-	-	-	-	-	-	-	( 14,346,250)	( 49,346,250)
Net carrying amount	<u>P 1,277,854,682</u>	<u>P 216,248,530</u>	<u>P 63,191,079</u>	<u>P 46,511,846</u>	<u>P 71,501,022</u>	<u>P 1,369,285</u>	<u>P 4,050,666</u>	<u>P 15,740,534</u>	<u>P 32,478,382</u>	<u>P 10,764,821</u>	<u>P 1,739,710,849</u>
December 31, 2018											
Cost	P 1,277,854,682	P 343,390,748	P 183,035,601	P 254,294,087	P 181,549,802	P 11,736,904	P 84,063,933	P 109,739,118	P 86,118,965	P 39,506,874	P 2,571,290,714
Accumulated depreciation and amortization	-	( 88,848,621)	( 115,575,943)	( 201,778,219)	( 118,013,724)	( 10,269,976)	( 72,205,178)	( 92,777,453)	( 59,849,880)	-	( 759,318,995)
Accumulated impairment losses	-	( 35,000,000)	-	-	-	-	-	-	-	( 14,346,250)	( 49,346,250)
Net carrying amount	<u>P 1,277,854,682</u>	<u>P 219,542,127</u>	<u>P 67,459,658</u>	<u>P 52,515,868</u>	<u>P 63,536,078</u>	<u>P 1,466,928</u>	<u>P 11,858,755</u>	<u>P 16,961,665</u>	<u>P 26,269,085</u>	<u>P 25,160,624</u>	<u>P 1,762,625,470</u>

Construction in progress pertains to accumulated costs incurred on building improvements being constructed in various properties of the Group.

In 2018, the Group recognized gain on disposal of certain property and equipment totaling P1.2 million. The recognized gain on the transactions are presented as part of Other Gains – Net in the consolidated statements of income (see Note 19.3).

There were no restrictions on titles and items of property and equipment as of December 31, 2018. Fully depreciated property and equipment still in use in the Group's operations amounted to P298.1 million as of December 31, 2018.

## 11. INVESTMENT PROPERTIES

The Group's investment properties accounted for under the fair value method, consists mainly of land and improvements, and buildings and improvements that are held under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income and incur direct costs such as real property taxes, repairs and maintenance and utilities which are presented as part of Cost of Rentals in the consolidated statements of income (see Note 16.3).

The fair values of the Group's investment properties as at December 31, 2018 was determined based on appraisal reports dated October 30, 2018. Management obtains annual appraisal reports on its investment properties from independent appraisers (see Note 29.4).

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position are summarized as follows as of March 31, 2019 and December 31, 2018:

	<u>Land and Improvements</u>	<u>Building and Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
<b>2019:</b>				
Balance at beginning of year	P 2,527,112,934	P 874,353,170	P 4,975,802	P 3,406,441,906
Additions		1,095,982	28,330,201	29,426,183
Fair value gains (losses) on investment property – net (see Note 18)		( 672,503)	-	( 672,503)
Transfer from property and equipment		-		-
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of year	<b><u>P 2,527,112,934</u></b>	<b><u>P 874,777,099</u></b>	<b><u>P 33,306,003</u></b>	<b><u>P 3,435,196,036</u></b>
<b>2018:</b>				
Balance at beginning of year	P 2,171,295,332	P 732,622,140	P -	P 2,903,917,472
Additions	5,814,906	48,829,767	-	58,866,599
Fair value gains (losses) on investment property – net (see Note 18)	346,740,526	( 69,875,474)	-	276,865,052
Transfer from property and equipment	3,262,170	162,776,737	8,749,802	170,566,783
Disposals	<u>-</u>	<u>-</u>	<u>( 3,774,000)</u>	<u>( 3,774,000)</u>
Balance at end of year	<b><u>P 2,527,112,934</u></b>	<b><u>P 874,353,170</u></b>	<b><u>P 4,975,802</u></b>	<b><u>P 3,406,441,906</u></b>



## 12. OTHER ASSETS

The composition of these accounts as of March 31, 2019 and December 31, 2018 are shown below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Current:			
Short-term placements	5	<b>P -</b>	P 806,113,523
Creditable withholding taxes		<b>97,850,646</b>	100,875,346
Input VAT – net		<b>89,685,571</b>	94,253,531
Prepayments		<b>20,284,982</b>	22,222,254
Deferred costs		<b>10,822,016</b>	10,556,069
Refundable deposits	26.2	<b>9,678,307</b>	9,747,103
Deferred input VAT		<b>11,455,127</b>	3,306,682
Others		<b>847,779</b>	9,999,893
		<b><u>P 240,624,428</u></b>	<b><u>P 1,057,074,401</u></b>
	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Non-current:			
Deposits on acquisition land		<b>105,389,337</b>	105,389,337
Refundable deposits	26.2	<b>5,700,168</b>	4,582,196
Deposits to suppliers		<b>3,347,774</b>	3,347,774
Cash bond		<b>692,234</b>	692,234
Intangible assets	7	<b>527,428</b>	553,836
Others		<b>9,125,370</b>	10,150,508
		<b><u>124,782,311</u></b>	<b><u>124,715,885</u></b>
		<b><u>P 365,406,740</u></b>	<b><u>P 1,181,790,286</u></b>

Short-term placements are made for varying periods of between 122 to 132 days in 2018 and earn effective interest of 6.25% and 3.50% in 2018 (see Notes 5 and 19.2).

Deferred costs by the Group represent cost of inventories which have not been charged to cost of sales pending the completion of its projects.

Prepayments pertain to prepaid insurance, prepaid rent, and prepayments for professional fees, import charges and others. In 2018, the Group made advance payments for the acquisition of land intended for future development.

## 13. INTEREST-BEARING LOANS

The Group's short-term interest-bearing loans pertain to loan of BRL which are denominated in USD and is currently due within 12 months after the end of reporting period; hence, classified as part of the

Group's current liabilities in the consolidated statements of financial position. Presented below is the reconciliation of the Group's interest-bearing loans.

	2019		2018	
	USD	PHP	USD	PHP
Balance at beginning of year	\$ 2,347,889	P 123,790,073	\$ 2,318,535	P 115,748,223
Additional borrowings	( 1,008,686 )	( 53,181,985 )	29,354	1,547,660
Translation adjustment	-	77,674	-	6,494,217
Balance at end of year	<u>\$ 1,339,202</u>	<u>P 70,685,762</u>	<u>\$ 2,347,889</u>	<u>P 123,790,100</u>

The loan of BRL are secured by the cash surrender value of investment in life insurance amounting to P724 million and P723 million as of March 31, 2019 and December 31, 2018, respectively (see Note 6). The loan bears interest at prevailing market rates ranging from 2.50% to 3.84% in 2018. Interest expense arising from these loans is shown as part of Interest expense on interest-bearing loans under Finance Costs account in the consolidated statements of income (see Note 19.1).

The fair value of loan obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period. As at December 31, 2018, the Group is not subjected to any covenants relating to the loan.

#### 14. TRADE AND OTHER PAYABLES

This account consists of:

	Note	2019	2018
Trade payables	24.1, 24.5	<b>P 118,018,385</b>	P 153,956,342
Accrued dealers' incentives		<b>57,450,387</b>	98,554,552
Refundable deposits		<b>35,946,322</b>	32,632,240
Accrued expenses		<b>29,299,840</b>	24,859,611
Non-trade payables		<b>12,527,983</b>	18,100,364
Unearned rental		<b>19,943,458</b>	14,657,262
Deferred output VAT		<b>12,806,353</b>	13,311,202
Advances from customers		<b>5,941,120</b>	11,740,395
Rentals payable		<b>5,725,049</b>	5,725,049
Withholding taxes payable		<b>10,823,804</b>	4,273,686
Output VAT		<b>7,440,581</b>	3,594,357
Reserve for warranty costs		<b>2,623,038</b>	2,623,381
Retention payable		<b>1,114,113</b>	190,401
Other payables		<u><b>7,104,326</b></u>	<u>37,943,848</u>
		<u><b>P 326,804,250</b></u>	<u>P 422,162,690</u>

Accrued dealers' incentives pertain to rebates awarded to dealers once certain level of sales were achieved during a particular period.

Accrued expenses include amounts charged for rentals, outside services, salaries and other operating expenses which remained unpaid as at the end of the reporting periods.

The outstanding deferred output VAT arises from the outstanding receivables on the Group's sale of services.

Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid contributions for social security and other benefits of the Group's employees.

## 15. REFUNDABLE DEPOSITS

SMC, Kita and ZTC have long-term refundable deposits from various tenants amounting to P27.9 million and P29.3 million as at March 31, 2019 and December 31, 2018. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 3.48% to 6.25% at the inception of the lease terms.

SMC recognized gain (loss) on discounting of its refundable deposits. The loss on discounting of refundable deposits was recognized as part of Finance Costs while the gain on discounting of refundable deposits was recognized as part of the Finance Income in the consolidated statements of income (see Notes 19.2 and 19.1).

The refundable deposits with maturity of more than one year are shown as a separate line item under Non-current Liabilities section in the consolidated statements of financial position.

## 16. COSTS OF SALES, SERVICES, RENTALS AND REAL ESTATE SALES

### 16.1 Cost of Sales

The details of this account are shown below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Merchandise inventories at beginning of year	8	P 798,017,743	P 681,659,177
Net purchases of merchandise inventories during the year	17, 24.1, 24.5	<u>297,052,985</u>	<u>665,562,023</u>
Goods available for sale		<u>1,095,070,728</u>	<u>1,347,221,201</u>
Merchandise inventories at end of year	8	( 738,928,783)	( 929,434,148)
Net provision (reversal of allowance) for inventory obsolescence	8	<u>-</u>	<u>( 210,586)</u>
	17	<u>P 356,141,945</u>	<u>P 417,576,467</u>

## 16.2 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services:

	Notes	2019	2018
Materials, supplies and other consumables	24.1	P 24,382,751	P 34,245,918
Service fees	25.3	24,899,592	16,583,254
Salaries and employee benefits	20.1	15,181,070	16,090,590
Subcontracting services		19,907,509	17,697,371
Depreciation and amortization	10	11,464,999	9,172,470
Manpower and other Outside services		9,766,864	11,062,700
Communication, light and water		7,681,276	6,500,738
Rentals	26.2	2,938,636	928,510
Fuel & Oil		2,914,471	2,504,639
Transportation and travel		2,633,025	1,892,250
Repairs and maintenance		1,827,045	1,504,304
Taxes and Licenses		386,305	478,647
Integration		1,398,249	653,183
Insurance		435,250	449,685
Others		4,583,365	4,352,232
	17	P 130,400,408	P 124,116,492

## 16.3 Cost of Rentals

The details of this account are as follows:

	Notes	2019	2018
Taxes and licenses		P 22,347,473	P 14,079,573
Manpower and other outside services		2,377,047	2,304,626
Rentals	26.2	54,000	1,892,326
Depreciation and amortization	10	8,513,952	7,858,345
Repairs and maintenance		1,515,623	1,377,211
Salaries and employee benefits	20.1	188,576	166,376
Communication usage service area		2,170,273	1,062,824
Others		2,381,185	2,242,097
	11, 17	P 39,548,129	P 30,983,378

Others primarily consists of supplies and transportation and travel expenses.

## 17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2019	2018
Net purchases of merchandise inventories	16.1, 24.1, 24.5	P 297,052,985	665,562,023
Salaries and employee benefits	20.1	58,347,012	52,808,619
Subcontracting services		45,502,518	39,693,224
Changes in merchandise, finished goods and work-in-process inventories	16.1	59,088,960	( 247,774,970)

Manpower and other outside services		<b>23,478,215</b>	25,107,195
Materials, supplies and other consumables	16.1, 24.5	<b>28,680,346</b>	35,206,700
Service fees	25.3	<b>24,899,592</b>	16,583,254
Utilities and communication		<b>17,509,598</b>	15,696,637
Depreciation and amortization	10	<b>25,967,677</b>	21,739,165
Taxes and licenses		<b>40,760,508</b>	31,772,199
Net provision (reversal) for inventory obsolescence	8	-	( 210,586)
Loss on unrecoverable advances		<b>138,321</b>	-
Warranty charges		<b>5,204,003</b>	7,175,678
Advertising and promotions		<b>8,267,316</b>	6,841,783
Repairs and maintenance		<b>5,739,705</b>	5,811,054
Provisions for warranty claims	14	-	-
Rentals	26.2	<b>7,352,609</b>	8,395,150
Equipment cost		<b>9,879</b>	-
Cost of condominium units and parking lots		-	6,186,779
Transportation and Travel		<b>8,581,153</b>	4,481,320
Insurance		<b>3,889,478</b>	3,395,952
Integration		<b>1,398,249</b>	653,183
Excess of actual over standard input VAT		<b>13,393</b>	-
Others		<b>12,786,360</b>	35,694,070
		<b>P 674,529,554</b>	P 734,818,430

These expenses are classified in the consolidated statements of income as follows:

	Note	2019	2018
Cost of sales	16.1	<b>P 356,141,945</b>	P 417,576,467
Cost of services	16.2	<b>130,400,408</b>	124,116,492
Cost of rentals	16.3	<b>39,548,129</b>	30,983,378
Cost of real estate sales	16.4	-	6,186,779
Selling and distribution costs		<b>56,161,448</b>	62,190,410
General and administrative expenses		<b>92,277,624</b>	93,764,904
		<b>P 674,529,554</b>	P 734,818,430

## 18. OTHER OPERATING INCOME (EXPENSE) – Net

The breakdown of this account is as follows:

	Notes	2019	2018
Fair value gains (losses) on investment property – net	11	<b>(P 672,053)</b>	(P 14,074,108)
Income from utilities charged to tenants		<b>8,294,921</b>	8,757,265
Common usage service area		<b>3,091,442</b>	1,960,624
Revenue share from embedded third party application		<b>29,834</b>	1,850,824
Forfeited customer deposit		-	269,844
Increase in CSV of investment in life insurance		-	6,441,848
Others		<b>1,773,408</b>	547,892
		<b>P 12,517,552</b>	P 5,754,189

## 19. OTHER INCOME (CHARGES) – Net

### 19.1 Finance Costs

This account consists of the following:

	Notes	2019	2018
Impairment losses on trade and other receivables - net	6	P 138,321	P -
Interest expense on interest-bearing loans	13	1,055,922	806,066
Interest amortization on refundable deposits	15	-	-
Realized foreign currency		1,566,460	28,323
Unrealized foreign currency losses		50,706	-
Bank Charges		209,480	70,197
Others			9,105
		<u>P 3,020,889</u>	<u>P 913,691</u>

### 19.2 Finance Income

This account consists of the following:

	Notes	2019	2018
Interest income from cash and cash equivalents, short-term placements and restricted cash	5, 12	P 10,786,092	P 10,745,096
Foreign currency exchange gains		3,782,048	22,683,611
Interest income from real estate sale		406,785	-
Others		6,000	-
		<u>P 14,980,924</u>	<u>P 33,428,707</u>

### 19.3 Other Gains – Net

The breakdown of this account is as follows:

	Notes	2019	2018
Gain on sale of property and equipment	10	( 1,217,612)	-
Excess standard over actual input vat		46,976	989,031
Sale of scrap		44,171	368,038
Others		581,425	1,312,960
		<u>(P 250,877)</u>	<u>P 2,670,029</u>

## EMPLOYEE BENEFITS

### 20.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Note 24.6).

	Notes	2019	2018
Short-term benefits		P 58,347,012	P 52,808,619
Post-employment benefits	20.2		
	17	P 58,347,012	P 52,808,619

These expenses are classified in the consolidated statements of income as follows:

	Notes	2019	2018
General and administrative expenses		P 35,640,939	P 27,676,355
Cost of services	16.2	15,181,070	16,090,590
Selling and distribution costs		7,336,427	8,875,298
Cost of rentals	16.3	188,576	166,376
	17	P 58,347,012	P 52,808,619

### 20.2 Post-employment Benefits

#### (a) Characteristics of the Defined Benefit Plan

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The Group's post-employment benefit plan provides retirement benefits ranging from 100% to 115% of the final monthly salary for every year of credited service.

#### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary in 2018 and 2017.

The components of the retirement benefit asset of SGI and certain subsidiaries at the end of the reporting periods are shown below.

	2018
Fair value of plan assets	P 185,016,569
Present value of obligation	( 58,627,118 )
	P 126,389,451

The amounts of the retirement benefit obligation recognized by certain subsidiaries at the end of the reporting periods are shown below.

	<u>2018</u>
Fair value of plan assets	P -
Present value of obligation	( <u>26,716,443</u> )
	( <u>P 26,716,443</u> )

The movements in the fair value of plan assets of the Group are presented below.

	<u>2018</u>
Balance at beginning of year	P 182,254,873
Interest income	10,343,781
Contributions	3,279,243
Benefits paid	( 1,392,100 )
Transfer to affiliates	( 270,000 )
Return on plan assets (excluding amounts included in net interest)	( <u>9,199,228</u> )
Balance at end of year	<u>P 185,016,569</u>

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	<u>2018</u>
Balance at beginning of year	P 114,356,452
Current service costs	18,048,937
Interest costs	6,704,215
Benefits paid	( 1,392,100 )
Benefits paid from book reserve	( 861,946 )
Remeasurements – actuarial losses (gains) arising from:	
Changes in financial assumptions	( 39,726,470 )
Experience adjustments	( 11,785,527 )
Changes in demographic assumptions	<u>-</u>
Balance at end of year	<u>P 85,343,561</u>

The plan assets consist of the following as of December 31:

	<u>2018</u>
Debt securities:	
Philippines government bonds	P 151,343,063
Corporate bonds	13,639,811
UITF	13,277,604
Mutual funds	1,095,947
Other assets	<u>5,660,144</u>
	<u>P 185,016,569</u>

The fair values of the above debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). Mutual funds and UITF are classified both as Level 2 while other assets are classified as Level 3 in the fair value hierarchy.

The plan assets earned a net return of P1.1 million in 2018.



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.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>Notes</u>	<u>2018</u>
<i>Reported in consolidated statements of income:</i>		
Current service cost	20.2	<b>P 18,048,937</b>
Net interest income	19.3	<b>( 3,639,566 )</b>
		<b><u>P 14,409,371</u></b>
	<u>Note</u>	<u>2018</u>
<i>Reported in consolidated statements of comprehensive income:</i>		
Actuarial gains (losses) from:		
Changes in financial assumptions		<b>P 39,726,470</b>
Changes in experience adjustments		<b>11,785,527</b>
Changes in demographic assumption		<b>-</b>
Return on plan assets (excluding amounts included in net interest)		<b>( 9,199,228 )</b>
	22.3	<b><u>P 42,312,769</u></b>

Current service cost is presented as part of salaries and employee benefit account under the General and Administrative Expenses account in the consolidated statements of income (see Notes 17).

The net interest income is included in Other Gains – Net account in the consolidated statements of income (see Note 19.3). Amounts recognized in other comprehensive income, net of tax, were classified within items that will not be reclassified subsequently to profit or loss in the consolidated statements of comprehensive income.

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working lives of employees before retirement at the age of 60 ranges from 5.49 to 27.0 years for males and 9.95 to 27 years for females. 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 a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *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 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 has generally concentrated on investment in debt securities, although the Group also invests in UTF and mutual funds.

(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.

(iii) *Inflation Risk*

A significant proportion of the DBO is linked to inflation. The increase in inflation will increase the Group's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(d) *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 defined benefit asset as of December 31, 2018 and 2017:

	<u>Impact on Post-employment Benefit Asset/Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>2018</u>			
Discount rate	+/- 0.5%	(P 1,542,398)	P 3,770,445
Salary increase rate	+/- 1.0%	7,801,756	( 2,600,242)

The sensitivity analysis above 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 DBO 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*

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, 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. A large portion of the plan assets as at December 31, 2018 and 2017 consists of government and corporate debt securities, although the Group also invests in UITF and mutual funds.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	<u>2018</u>
Within one year	P 1,952,747
More than one year to five years	25,591,195
More than five years to 10 years	40,379,247
More than 10 years to 15 years	97,446,235
More than 15 years to 20 years	174,123,309
More than 20 years	<u>1,937,142,092</u>
	<u>P 2,276,634,825</u>

## 21. TAXES

### 21.1 *Registration with Economic Zone Authorities*

(a) *Registration with Clark Development Corporation (CDC)*

Kita, a subsidiary, is registered with CDC under RA No. 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA No. 9400, *An Act Amending RA No. 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes*. As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% regular corporate income tax (RCIT) rate is applied to income coming from sources other than Kita's registered activities.

(b) *Registration with Philippine Economic Zone Authority (PEZA)*

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein.

SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes. In 2018, SMC did not have transactions with PEZA-registered entities.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

## 21.2 Current and Deferred Taxes

The components of tax expense as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	<u>2018</u>		
<i>Reported in consolidated statements of income:</i>			
Current tax expense:			
RCIT at 30%	P 42,347,249		
Final taxes at 20%, 15% and 7.5%	23,269,704		
Minimum corporate			
income tax (MCIT) at 2%	4,154,042		
Preferential tax at 5%	406,045		
Capital gains tax	-		
	<u>70,177,040</u>		
Application of excess MCIT	( 2,011,564)		
Deferred tax expense relating			
to origination and reversal of			
temporary differences	<u>27,814,413</u>		
	<u>P 95,979,889</u>		
<i>Reported in consolidated statements of comprehensive income:</i>			
Deferred tax expense (income) on			
remeasurements of defined benefit			
post-employment plan	P 12,097,306		
Deferred tax expense on changes			
in fair value of financial assets			
at FVOCI	1,560,000	-	-
Deferred tax expense on changes			
in fair value of AFS financial assets	<u>-</u>		
	<u>P 13,657,306</u>		

A reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statements of income is shown below.

	<u>2018</u>
Tax on pretax profit at 30% and on gross profit at 5%	<b>P 114,832,611</b>
Adjustment for income subjected to lower tax rates	( 14,555,307)
Tax effects of:	
Deferred income subject to RCIT	( 12,379,050)
Unrecognized deferred tax assets from net operating loss carry-over (NOLCO) and MCIT and other temporary differences	9,425,707
Nontaxable income	( 2,181,089)
Nondeductible expenses and losses	1,030,724
Benefit from previously unrecognized NOLCO, MCIT and other temporary differences	( 891,219)
Impairment loss on receivables	427,108
Post-employment defined benefits	306,502
Excess of optional standard deduction over itemized deductions	( 274,394)
Income of foreign subsidiary not subject to taxes	142,705
Application of unrecognized MCIT	128,080
Others	( <u>32,489</u> )
	<b><u>P 95,979,889</u></b>

The net deferred tax assets of certain subsidiaries having a net deferred tax asset position as of December 31 relate to the following:

	<u>2018</u>
Deferred tax assets:	
NOLCO	<b>P 66,391,846</b>
Accrued expenses	29,561,228
Allowance for inventory obsolescence	22,261,175
Allowance for impairment on trade and other receivables	22,068,023
MCIT	8,042,821
Retirement benefit obligation	6,160,507
Fair value loss on investment property	3,175,333
Unrealized foreign currency loss	-
Provision for warranty claims	-
	<u>157,660,933</u>
Deferred tax liabilities –	
Unrealized foreign currency gains	( <u>951,801</u> )
Deferred tax assets – net	<b><u>P 156,709,132</u></b>

The net deferred tax liabilities of the Parent Company and other subsidiaries, which have a net deferred tax liability position as of December 31 relate to the following:

	<u>2018</u>
Deferred tax assets:	
Allowance for impairment on trade and other receivables	<b>P 8,212,061</b>
Unearned rent income	<b>5,716,401</b>
Impairment losses on property and equipment	<b>4,303,875</b>
Allowance for inventory obsolescence	<b>1,920,705</b>
Loss on investment in subsidiaries	<b>838,709</b>
Provisions for warranty claims	<b>787,014</b>
MCIT	<b>566,293</b>
Unamortized past service costs	<b>449,185</b>
NOLCO	<b>-</b>
	<u><b>22,794,243</b></u>
Deferred tax liabilities:	
Fair value gains on investment property – net	<b>( 585,968,203)</b>
Accumulated depreciation on investment property	<b>( 153,256,972)</b>
Retirement benefit asset	<b>( 36,985,979)</b>
Excess of FV over cost of property	<b>( 14,433,336)</b>
Unrealized foreign currency gains	<b>( 7,927,232)</b>
Accrued rent income	<b>( 4,376,851)</b>
Changes in fair value of financial assets at FVOCI	<b>( 3,126,543)</b>
Deferred rent income – PAS 17	<b>-</b>
Changes in fair value of AFS	<b>-</b>
	<u><b>( 806,075,116)</b></u>
Deferred tax liabilities – net	<u><b>(P 783,280,873)</b></u>

The components of net deferred tax expense (income) reported in the consolidated statements of income as of December 31, 2018 are as follows:

	<u>2018</u>
NOLCO	(P 65,897,971)
Fair value gains on	
investment property – net	83,059,516
Allowance for inventory obsolescence	19,825,380
Accumulated depreciation on	
investment property	( 7,014,121)
Unrealized foreign currency gains (losses) – net	5,887,266
Retirement benefit asset	( 3,047,956)
Allowance for impairment on	
trade and other receivables	( 2,125,577)
Excess of MCIT over RCIT	( 2,019,900)
Unearned rent income	( 630,033)
Reserve for commission	( 501,670)
Refundable deposits	389,175
Provision for warranty claims	( 352,409)
Unamortized past service costs	149,775
Deferred rent income – PAS 17	149,251
Accrued income	( 56,313)
Unamortized pre-operating expenses	-
Changes in fair value of financial	
assets at FVTPL	-
Benefits from previously unrecognized MCIT	-
Accrued expenses	-
	<u>P 27,814,413</u>

The deferred tax expense recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of financial assets at FVOCI/AFS financial assets and remeasurements of post-employment defined benefit plan (see Note 22.3).

The movements in the Group's NOLCO and MCIT are as follows:

<u>Year</u>	<u>Original Amount</u>	<u>Applied</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
<b>NOLCO</b>					
2018	P 226,621,411	P -	P -	P 226,621,411	2021
2017	22,095,114	223,870	-	21,871,244	2020
2016	30,461,687	6,705,452	-	23,756,235	2019
2015	<u>26,420,480</u>	<u>3,380,378</u>	<u>23,040,102</u>	<u>-</u>	
	<u>P 305,598,692</u>	<u>P 10,309,700</u>	<u>P 23,040,102</u>	<u>P 272,248,890</u>	
<b>MCIT</b>					
2018	P 4,147,314	P -	P -	P 4,147,314	2021
2017	78,115	-	-	78,115	2020
2016	13,102,960	9,042,429	-	4,060,531	2019
2015	<u>7,702,496</u>	<u>7,702,496</u>	<u>-</u>	<u>-</u>	
	<u>P 25,030,885</u>	<u>P 16,744,925</u>	<u>P -</u>	<u>P 8,285,960</u>	

The NOLCO, MCIT and other deductible temporary differences as of December 31 for which the related deferred tax assets have not been recognized by certain entities in the Group are shown below.

	2018	
	Amount	Tax Effect
NOLCO	P 62,219,347	P 18,665,804
Allowance for impairment of trade receivables	13,600,000	4,080,000
Allowance for impairment loss on AFS financial assets	829,222,559	248,766,768
Unrealized foreign currency gain	-	-
Retirement benefit obligation	-	-
MCIT	-	-
Allowance for inventory obsolescence	-	-
	<u>P 905,041,906</u>	<u>P 271,512,572</u>

The deferred tax liability on unrealized foreign currency gains in 2018 was not recognized since the Group has sufficient deferred tax assets to cover any future tax liability that will arise once this gain has been realized. In 2018, SGI recognized DTL on unrealized foreign exchange gain amounting to P2.7 million.

Except for ZTC in 2018, the Group opted to claim itemized deductions in computing for its income tax due in 2018.

## 22. EQUITY

### 22.1 Capital Stock

The Parent Company has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value.

On June 18, 1996, the Commission issued an Order approving the Registration Statement covering the securities which comprised the Parent Company's entire authorized capital stock. On September 4, 1996, the Parent Company's shares were listed in the PSE and the trading of offer shares commenced. The Parent Company's offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares consisted of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of December 31, 2018 and 2017, the Group has issued shares of 2,030,975,000 (with P1 par value), of which, 386,922,704 shares are held by the public both in 2018. There are 3,396 holders of the listed shares, which closed at P1.32 per share as of December 31, 2018.

### 22.2 Retained Earnings

The BOD approved the declaration of cash dividends in 2018 as follows:

<u>Date of Declaration</u>	<u>Stockholders of Record as of</u>	<u>No. of Shares Outstanding</u>	<u>Amount per Share</u>	<u>Total</u>
August 10, 2018	August 31, 2018	1,821,542,000	P 0.06	P 109,292,520



The dividends were paid within their respective years of declaration and approval. Retained earnings is restricted in the amount of P115.6 million as of December 31, 2018, equivalent to the cost of 209,433,000 shares held in treasury.

### 22.3 Revaluation Reserves

The components of this account and its movements are as follows:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year		<b>P 42,225,155</b>	(P 15,778,108 )
Currency exchange differences on translating financial statements of foreign operations	2	<u>451,789</u>	<u>18,358,136</u>
		<b><u>P 42,676,944</u></b>	<b><u>P 2,580,028</u></b>

## 23. EARNINGS PER SHARE

Basic and diluted earnings for profit attributable to the Parent Company's stockholders are computed as follows:

	<u>2019</u>	<u>2018</u>
Net profit for the year attributable to the Parent Company's stockholders	<b><u>P 6,475,976</u></b>	<b><u>P 50,137,033</u></b>
Divided by weighted average shares outstanding:		
Number of shares issued	<b>2,030,975,000</b>	2,030,975,000
Treasury shares	<b>( 209,433,000 )</b>	( 209,433,000 )
	<b><u>1,821,542,000</u></b>	<b><u>1,821,542,000</u></b>
Earnings per share – basic and diluted	<b><u>P 0.004</u></b>	<b><u>P 0.03</u></b>

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2019 and December 31, 2018, hence, diluted earnings per share is equal to the basic earnings per share.

## 24. RELATED PARTY TRANSACTIONS

The Group's related parties include other companies owned by the Parent Company's majority stockholders and the Group's key management personnel.

A summary of the Group's related party transactions as at December 31, 2018 and for year ended December 31, 2018 is summarized below.

Related Party Category	Notes	Amounts of Transaction		Outstanding Receivable (Payable)	
		2018		2018	
Related Parties Under					
Common Ownership:					
Purchase of mobile phones	24.5	P	2,402,888,346	(P	9,089,319)
Advances to suppliers	24.5	(	222,764,208)		4,081,344
Purchase of spare parts	24.5		27,576,311	(	175,619)
Lease of real property	24.2		6,172,274		-
Rendering of services	24.10		4,023,357		831,204
Commissions	24.5		2,381,237		2,381,237
Cash advances obtained	24.4	(	1,911,535)	(	1,881,570)
Sale of goods	24.9		1,478,076		-
Granting (collection) of business loans	24.3	(	1,000,000)		11,397,788
Interest income	24.3		938,444		-
Cash advances granted	24.4		225,585		9,445,656
Purchase of supplies and services	24.1		-		-
Others:					
Key management personnel compensation	24.6		49,080,417		-

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial, Inc. and AV Value Holdings Corporation.

Unless otherwise stated, the Group's outstanding receivables from and payables to related parties arising from advances, sale and purchase of goods, management services and other services, are unsecured, noninterest-bearing and generally settled in cash within 12 months from the end of the reporting period.

Similar to trade receivables, the Group's receivables with related parties were assessed for impairment using the Group's simplified approach of ECL model. These receivables have substantially the same risk characteristics as the trade receivables. As such, the expected loss rates for trade receivables are a reasonable approximation of the loss rates for receivables from related parties.

Based on the management assessment, no impairment loss is required to be recognized in 2018 as determined using the provision matrix. Further, no impairment loss is required to be recognized in 2017 as there was no objective evidence that the receivables from customers were impaired.

#### ***24.1 Purchase of Goods, Supplies and Services***

Outstanding payable from STL and CPD is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 14).

In 2018, MySolid purchased mobile phones, tablets and accessories at prevailing market prices from STL amounting to P27.6 million and recorded as part of Net purchases under Cost of Sales in the 2018 consolidated statement of income (see Notes 16.1 and 17). Outstanding payable from these purchases amounted to P0.2 million as of December 31, 2018 and is shown as part of Trade payables under the Trade and Other Payables in the 2018 consolidated statement of financial position (see Note 14).

#### ***24.2 Lease of Real Property***

SMC leases out certain land and buildings to Avid, a related party under common ownership. Also, ZTC leases out its office space to TCL Sun Inc. Income from these leases is shown as part of Rentals in

the consolidated statements of income (see Note 11). Uncollected billings in 2017, on the other hand, form part of Rental receivables under the Trade and Other Receivables account in the 2017 consolidated statement of financial position (see Note 6). There were no outstanding receivables from this transaction as of December 31, 2018.

The outstanding receivables from related parties are unsecured and do not bear any interest.

### ***24.3 Granting of Loans***

SMFI grants business loans and other loans to its related parties that bear interest rate of 8.0% in 2018. Total interest earned from these loans amounted to P0.9 million in 2018 is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Loans receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

In prior years, SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment related to this loan amounted to P1.0 million in 2018. This loan is payable on demand. The outstanding receivables from this business loan amounted to P11.4 million as of December 31, 2018.

### ***24.4 Advances to and from Related Parties***

Certain subsidiaries of the Group grants and obtains unsecured, noninterest-bearing cash advances to and from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes.

The movements in advances to related parties are as follow:

	<u>2018</u>
Balance at beginning of year	P 9,223,071
Advances granted	<u>222,585</u>
Balance at end of year	<u>P 9,445,656</u>

The movements in advances from related parties are as follow:

	<u>2018</u>
Balance at beginning of year	P 3,793,105
Advances obtained	
Repayment of advances	( <u>1,991,535</u> )
Balance at end of year	<u>P 1,881,570</u>

These advances have no definite repayment dates and are generally settled in cash depending on available resources of the parties involved.

#### ***24.5 Transactions with Solid Trading Limited (STL)***

SVC earns commission from sales of STL, a Group owned by SGI's majority stockholders, to customers in the Philippines. Commissions earned are presented as part of Rendering of Services in the consolidated statements of income. The outstanding balance arising from these transactions as of December 31, 2018 is shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

My Solid purchases mobile phone inventories from STL amounting to P2.4 billion, in 2018 (see Note 16.1). In 2017, My Solid acquired mobile phone spare parts from STL amounting to P27.7 million. Total outstanding payable from these purchases amounted to P9.1 million and P1.0 million as of December 31, 2018, and are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 14).

My Solid also made advance payments to STL for its future purchase of mobile phone inventories. The outstanding advances amounting to P4.1 million as of December 31, 2018 is presented as part of Advances to suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

#### ***24.6 Transactions with the Retirement Fund***

The Group has established a formal multi-employer retirement plan which is administered by a trustee bank, except for CBHI, GSHMI, My Solid, SGTC and ZTC, whose retirement fund remained unfunded as of December 31, 2018.

The retirement fund consists of government securities, corporate bonds, UITF and mutual funds with fair values totaling P185.0 million as at December 31, 2018 (see Note 20.2). The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also has no investments in the Parent Company's shares of stock which are listed for trading at the PSE.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 20.2.

#### ***24.7 Sale of Goods***

My Solid and SVC sells mobile phones, tablets and accessories to Avid. Revenues from said transactions are presented as part of Sale of Goods account in the statements of comprehensive income.

The outstanding receivables from these transactions which are generally unsecured, noninterest-bearing and settled through cash within 30 to 45 days are presented as part of Trade receivables under the Trade and Other Receivables account in the statements of financial position (see Note 6).

#### ***24.8 Rendering of Services***

OSSI provides leasing warehouse and distribution services to Avid. Revenues from the said transactions amounting to P4.0 million in 2018, P4.5 million in 2017 and P3.9 million in 2016 are presented as part of Rendering of Services account under the Revenues account in the statements of comprehensive income.

The outstanding receivables arising from these transactions, which are generally unsecured, noninterest-bearing and settled through cash within 30 to 60 days, amounts to P0.8 million and P1.1 million as of December 31, 2018 and 2017, respectively, and is presented as part of Trade receivables under the Trade and Other Receivables account in the statements of financial position (see Note 6).

## **25. SIGNIFICANT CONTRACTS AND AGREEMENTS**

### ***25.1 Memorandum of Understanding with SPI***

On July 1, 2003, SEC entered into a Memorandum of Understanding (MOU) with SPI for network support services to be performed by the former to the latter. Under the MOU, SPI authorized SEC to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee equivalent to a certain percentage of SPI's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by SPI. Network support fees are billed at a fixed rate per month. The agreement is effective unless revoked by any of the parties.

Network support fees and in-warranty service fees relating to Sony products amounted to P110.6 million in 2018, and are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balances arising from these transactions amounted to P25.1 million as of December 31, 2018, and is included as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

### ***25.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)***

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses. Management believes that the Agreement continues to be effective although no formal renewal has been made since 2007.

### ***25.3 Management Agreement with Sky Cable Corporation***

SBC and Sky Cable Corporation (SCC) agreed that the management and administration of the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC be entrusted to SCC. SCC, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

Revenues arising from these transactions amounted to P2.4 million in 2018 and is presented as part of Rendering of Services under Revenues in the consolidated statements of income. The outstanding receivable amounted to P0.6 million as of December 31, 2018 and is included as part of Trade receivables under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6). The related expense is presented as part of Service fees under Cost of Services account in the consolidated statements of income (see Note 16.2).

## 26. COMMITMENTS AND CONTINGENCIES

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

### *26.1 Operating Lease Commitments – Group as Lessor*

Certain subsidiaries lease out real estate properties under various non-cancellable lease agreements with terms ranging from 1 to 10 years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum lease receivables under these non-cancellable operating leases as of December 31 are presented in the succeeding page.

	<u>2018</u>
Within one year	P 70,186,859
After one year but not more than five years	421,046,029
More than five years	<u>673,475,884</u>
	<u>P 1,164,708,772</u>

Rental income earned from these transactions are presented as Rentals under Revenues section in the consolidated statements of income.

### *26.2 Operating Lease Commitments – Group as Lessee*

The Group is a lessee under non-cancellable operating leases covering several parcels of land. These leases have terms of 25 years expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	<u>2018</u>
Within one year	P 24,425,254
After one year but not more than five years	<u>10,299,290</u>
	<u>P 34,724,544</u>

Rental expense charged to operations from these operating leases is shown as part of Rentals under Cost of Rentals account in the consolidated statements of income (see Notes 16.2 and 16.3).

Refundable deposits received in relation to these lease arrangements amounted to P14.3 million as of December 31, 2018. These amounts are presented as part of Other Current Assets and Other Non-current Assets in the consolidated statements of financial position (see Note 12).

### *26.3 Purchase Commitments*

In 2007, ZTC entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 9). The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 was not yet started as of December 31, 2018.

#### ***26.4 Possible Impact of Government Project***

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the Tri Towers condominium building project might be affected by the plans of the National Government of the Philippines for the construction of the proposed 2nd Ayala Bridge (see Note 9). However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the Tri Towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project.

#### ***26.5 Option Agreement***

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGPS shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2013, SCC has not exercised this option (see Note 25.3); hence, the Parent Company still holds the ownership interests in SBC.

#### ***26.6 Others***

The Group has unused credit facilities amounting to P1.1 billion both in 2019 and 2018.

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. As of December 31, 2018, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's consolidated financial statements.

### **27. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 28.1. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its BOD 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 continuous returns. The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

#### ***27.1 Market Risk***

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from its operating, investing and financing activities.

(a) *Foreign Currency Risk*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's foreign currency denominated trade and other receivables, interest-bearing loans and trade and other payables, which are primarily denominated in U.S. dollars. The Group also holds U.S. dollar-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos at the closing rate are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets	P 407,546,302	P 29,721,043
Financial liabilities	( <u>7,802,792</u> )	( <u>6,607,120</u> )
Short-term exposure	<u>P 399,743,510</u>	( <u>P 23,113,923</u> )

The table in the below illustrates the sensitivity of the Group's profit (loss) before tax with respect to changes in Philippine pesos against foreign currency exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 3 months at a 99% confidence level.

	<u>2019</u>		<u>2018</u>	
	<u>Reasonably Possible Change in Rate</u>	<u>Effect in Profit Before Tax</u>	<u>Reasonably Possible Change in Rate</u>	<u>Effect in Profit Before Tax</u>
Php – USD	3.99%	<u>P 15,956,977</u>	2.31%	<u>P 23,113,923</u>

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) *Interest Rate Risk*

At March 31, 2019 and December 31, 2018, the Group is exposed to changes in market interest rates through its cash and cash equivalents and short-term placements (presented under Other Assets), which are subject to variable interest rates (see Notes 5 and 12). All other financial assets and financial liabilities have fixed rates.

The following illustrates the sensitivity of profit before tax for the period to a reasonably possible change in interest rates of +/-1.11% in 2019, +/-4.80% in 2018. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 1.11%, and 4.80% , profit before tax in 2019 and 2018 , would have increased by P38.9 million, and P154.3 million respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax in 2019 and 2018 would have been lower by the same amounts.



(c) *Other Price Risk*

The Group's market price risk arises from its investments carried at fair value (i.e., financial assets classified as financial assets at FVTPL and financial assets at FVOCI/AFS financial assets). The Group manages exposures to price risk by monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

## 27.2 Credit Risk

Credit risk is the risk that the counterparties may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting loans and selling goods and services to customers including related parties, placing deposits with banks.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized in the succeeding page.

	Notes	2019	2018
Cash and cash equivalents	5	<b>P 3,501,864,286</b>	P 2,455,464,411
Trade and other receivables (excluding advances to suppliers) – net	6	<b>1,003,482,236</b>	1,467,445,167
Short-term placements	12		806,113,523
Refundable deposits	12	<b>15,378,475</b>	14,329,299
Advances to related parties	24.4	<b>9,326,378</b>	9,445,656
Cash bond	12	<b>692,234</b>	692,234
		<b><u>P 4,530,743,608</u></b>	<b><u>P 4,753,464,866</u></b>

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

(a) *Cash and Cash Equivalents and Short-term Placements*

The credit risk for cash and cash equivalents in the consolidated statements of financial position, 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 P500,000 for every depositor per banking institution.

(b) *Trade and Other Receivables, Refundable Deposits, and Cash Bond*

The Group applies PFRS 9's simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables and other receivables and refundable deposits. The ECL is determined by projecting the PD, LGD, and EAD for each future period and for each collective

segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month).

The calculation of ECL incorporates forward-looking information. The Company has performed historical analysis and identified the key economic value factor affecting credit risk and ECL for the loan portfolio.

Except for trade receivables arising from real estate sales, none of the financial assets are secured by collateral or credit enhancements. Trade receivables arising from real estate sales are secured by industrial lots and condominium units sold to buyers and are covered by postdated checks.

(c) *Advances to Related Parties*

These advances were subjected by the Group to the impairment test using the external benchmarking methodology of PFRS 9's ECL model. Based on the result of testing made, no impairment loss is required to be recognized in 2018 and 2017.

### 27.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in short-term placements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of March 31, 2019, and December 31, 2018, the Group's financial liabilities have contractual maturities, which are presented below.

	2019		
	Current		Non-current
	Within 6 Months	6 to 12 Months	1 to 5 Years
Interest-bearing loans	P 70,685,762	P -	P -
Trade and other payables	267,186,406	-	-
Advances from related parties	1,881,549	-	-
Refundable deposits	-	-	27,869,556
	<b>P 339,753,717</b>	<b>P -</b>	<b>P 27,869,556</b>
	2018		
	Current		Non-current
	Within 6 Months	6 to 12 Months	1 to 5 Years
Interest-bearing loans	P 126,624,628	P -	P -
Trade and other payables	371,552,412	-	-
Advances from related parties	1,881,570	-	-
Refundable deposits	-	-	29,298,575
	<b>P 500,058,610</b>	<b>P -</b>	<b>P 29,298,575</b>

The above contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of reporting period.

## 28. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 28.1 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 Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial assets</b>					
At amortized cost:					
Cash and cash equivalents	5	P 3,501,864,286	P 3,501,864,286	P 2,455,464,411	P 2,455,464,411
Trade and other receivables – net	6	1,003,482,236	1,003,482,236	1,467,419,743	1,467,419,743
Short-term placements	12			806,113,523	806,113,523
Refundable deposits	12	15,378,475	15,378,475	14,329,299	14,329,299
Advances to related parties	24.4	9,326,378	9,326,378	9,445,656	9,445,656
Cash bond	12	692,234	692,234	692,234	692,234
		<u>4,530,743,609</u>	<u>4,530,743,609</u>	<u>4,753,464,866</u>	<u>4,753,464,866</u>
Financial assets at FVOCI:					
Club shares	7	14,000,000	14,000,000	27,100,000	27,100,000
Others				-	-
		<u>14,000,000</u>	<u>14,000,000</u>	<u>27,100,000</u>	<u>27,100,000</u>
		<u>P 4,544,743,609</u>	<u>P 4,544,743,609</u>	<u>P 4,780,564,866</u>	<u>P 4,780,564,866</u>
<b>Financial liabilities</b>					
At amortized cost:					
Interest-bearing loans – net	13	P 70,685,762	P 70,685,762	P 126,624,628	P 126,624,628
Trade and other payables	14	267,186,406	267,186,406	371,552,412	371,552,412
Refundable deposits	15	27,869,556	27,869,556	29,298,575	29,298,575
Advances from related parties	24.4	1,881,549	1,881,549	1,881,570	1,881,570
		<u>P 367,623,273</u>	<u>P 367,623,273</u>	<u>P 529,357,185</u>	<u>P 529,357,185</u>

See Notes 2.5 and 2.12 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 27.

### 28.2 Offsetting of Financial Instruments

The Group has not set-off financial instruments and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) may have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the respective BODs and stockholders of both parties.

The Group's outstanding cash advances obtained from other related parties amounting to P1.8 million both for the period as at March 31, 2019 and December 31, 2018, respectively, and presented as Advances from Related Parties account in the consolidated statements of financial position, can be

offset against and by the amount of outstanding cash advances granted to other related parties amounting to P9.3 million and P9.4 million as at March 31, 2019 and December 31, 2018, respectively (see Note 24.4).

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, certain agreements between the Group and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both parties elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. As at March 31, 2019 and December 31, 2018, the Group's cash surrender value of investment in life insurance amounting to P724 million and P723.2 million, respectively and presented as part of Trade and Other Receivables – Net account in the consolidated statements of financial position may be used to settle the outstanding loans of BRL amounting to P70.7 million and P123.8 million as at March 31, 2019 and December 31, 2018, respectively, and presented as Interest-bearing Loans in the consolidated statements of financial position (see Notes 6 and 13).

## 29. FAIR VALUE MEASUREMENTS AND DISCLOSURES

### 29.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial 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 as follows.

- 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.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market 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 relies 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.

## 29.2 Financial Instruments Measured at Fair Value

The Group's financial instruments at fair value in the consolidated statements of financial position as of December 31, 2018 and 2017, amounted to P27.1 million and P21.0 million, respectively. These financial instruments, which comprised of golf club shares, are included in Level 2 as their prices are not derived from market considered due to lack of trading activities among market participants at the end or close to the end of the reporting period.

For unquoted equity securities classified as financial assets at FVOCI (2017: AFS financial assets), the financial assets are measured at cost; hence, these assets are not included within the fair value hierarchy.

## 29.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The tables below and in the succeeding page summarize the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

			2019		
	Notes		Level 1	Level 3	Total
<i>Financial Assets</i>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	5	P	3,501,864,286	P -	P 3,501,864,286
Trade and other receivables – net	6		-	1,003,482,236	1,003,482,236
Short-term placements	12			-	
Refundable deposits	12		-	15,378,475	15,378,475
Advances to related parties	24.4		-	9,326,378	9,326,378
Restricted cash and cash bond	12		-	692,234	692,234
			<u>P 3,501,864,286</u>	<u>P 1,028,879,323</u>	<u>P 4,530,743,609</u>
<i>Financial Liabilities</i>					
<i>At amortized cost:</i>					
Interest-bearing loans – net	13	P	-	P 70,685,762	P 70,685,762
Trade and other payables	14		-	254,151,087	254,151,087
Refundable deposits	15		-	27,869,556	27,869,556
Advances from related parties	24.4		-	1,881,549	1,881,549
			<u>P -</u>	<u>P 354,587,954</u>	<u>P 354,587,954</u>

			2018			
Notes			Level 1	Level 3	Total	
<i>Financial Assets</i>						
<i>At amortized cost:</i>						
Cash and cash equivalents	5	P	2,455,464,411	P	-	P 2,455,464,411
Trade and other receivables – net	6		-		1,467,419,743	1,467,419,743
Short-term placements	12		806,113,523		-	806,113,523
Refundable deposits	12		-		14,329,999	14,329,999
Advances to related parties	24.4		-		9,445,656	9,445,656
Cash bond	12		-		692,234	692,234
			<u>P 3,261,577,934</u>	<u>P 1,491,887,632</u>	<u>P 4,753,465,566</u>	
<i>Financial Liabilities</i>						
<i>At amortized cost:</i>						
Interest-bearing loans – net	13	P	-	P	126,624,628	P 126,624,628
Trade and other payables	14		-		371,552,412	371,552,412
Refundable deposits	15		-		29,298,575	29,298,575
Advances from related parties	24.4		-		1,881,570	1,881,570
			<u>P -</u>	<u>P 529,357,185</u>	<u>P 529,357,185</u>	

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

#### 29.4 Fair Value Measurements of Non-financial Assets

The tables below and in the succeeding page show the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018.

		2019			
		Level 2	Level 3	Total	
Land and improvements		P2,527,112,934	P -	P 2,527,112,934	
Building and improvements		-	874,777,099	874,777,099	
Construction in progress		-	33,306,003	33,306,003	
		<u>P2,527,112,934</u>	<u>P 908,083,102</u>	<u>P 3,435,196,036</u>	
		2018			
		Level 2	Level 3	Total	
Land and improvements		P2,575,841,942	P -	P 2,575,841,942	
Building and improvements		-	825,624,162	825,624,162	
Construction in progress		-	4,975,802	4,975,802	
		<u>P2,575,841,942</u>	<u>P 830,599,964</u>	<u>P 3,406,441,906</u>	

The fair value of the Group's land and improvements, and building and improvements classified under Investment Properties (see Note 11) are determined on the basis of the appraisals performed by Royal Asia Appraisal Corporation in 2018, independent appraisers with appropriate qualifications and recent

experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers 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 non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

*(a) Fair Value Measurement for Land and Improvements*

The Level 2 fair value of land and improvements was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

*(b) Fair Value Measurement for Building and Building Improvements*

The Level 3 fair value of the buildings and improvements under Investment Property account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

### **30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES**

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

The computation of the Group's debt-to-equity ratio is presented below.

	<u>2019</u>	<u>2018</u>
Total liabilities (excluding advances from related parties)	<b>P 1,264,434,278</b>	P 1,409,279,374
Total equity	<u><b>10,560,437,159</b></u>	<u>10,547,287,338</u>
	<u><b>0.12 : 1.00</b></u>	<u>0.13 : 1.00</u>

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities excluding amounts due to related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

As at March 31, 2019 and December 31, 2018, the Group is not subject to any externally-imposed capital requirements, except for SMFI as indicated below.

Under Section 6 of RA No. 8556, SMFI is required to maintain a minimum paid-up capital of not less than P10.0 million. SMFI is in compliance with the minimum paid-up capital requirement as at March 31, 2019 and December 31, 2018.

### 31. EVENT AFTER THE END OF THE REPORTING PERIOD

On February 20, 2019, Republic Act No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code), was signed into law. Among the provisions of the Revised Corporation Code, the following would impact the Group's consolidated financial statements:

- The Revised Corporation Code removed the 50-year maximum corporate term. Hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and,
- The Revised Corporation Code removed the subscription requirement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

The management deems further that other amendments and new provisions contained in the Revised Corporation Code is not material to the Group.



**SOLID GROUP INC. AND SUBSIDIARIES**  
**SCHEDULE OF RELEVANT RATIOS**  
**MARCH 31, 2019**

LIQUIDITY RATIOS	FORMULA	2019	2018
<b>LIQUIDITY RATIOS</b>			
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	12.70 : 1	9.82 : 1
Acid Test ratio	$\frac{\text{Cash \& Cash Equivalents} + \text{Trade Receivables}}{\text{Current Liabilities}}$	9.46 : 1	5.85 : 1
<b>SOLVENCY RATIOS</b>			
Debt to Equity ratio	$\frac{\text{Total Liabilities (excluding advances from related parties)}}{\text{Total Equity}}$	0.12 : 1	0.13 : 1
Gearing Ratio	$\frac{\text{Financial Debt}}{\text{Total Equity}}$	0.01 : 1	0.01 : 1
<b>Asset to equity ratio</b>	$\frac{\text{Total Assets}}{\text{Total Equity}}$	1.12 : 1	1.13 : 1
<b>Interest coverage ratio</b>	$\frac{\text{EBIT}}{\text{Interest Expense}}$	9 : 1	94 : 1
<b>Profitability Ratios</b>			
Operating Margin	$\frac{\text{Operating Profit}}{\text{Total Revenues}}$	-0.43%	5.16%
Net Profit Margin	$\frac{\text{Net Income after Tax}}{\text{Total Revenues}}$	1.93%	6.92%
Return on Total Assets	$\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$	0.11%	0.45%
Return on Equity	$\frac{\text{Net Income after Tax}}{\text{Total Equity}}$	0.12%	0.51%

Current	1-30 days	31-60 days	61-90 days	91 days & over	TOTAL
97,822,868	52,893,421	17,061,715	28,073,602	17,880,903	213,732,509
161,981,902	8,633,483	43,167,414	28,778,276	57,556,552	300,117,626
21,931,972	3,995,185	2,025,487	2,384,763	7,123,949	37,461,356
4,443,191	-	17,198	6,600	316,775	4,783,765
39,518,501	-	-	-	1,090,091	40,608,592
28,998,847	-	-	-	-	28,998,847
18,522,539	5,721,060	588,234	470,093	17,568,701	42,870,627
373,219,821	71,243,148	62,860,048	59,713,334	101,536,971	668,573,322
					(103,287,799)
					565,285,523