

# COVER SHEET

SEC Registration Number

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### Company Name

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### Principal Office ( No./Street/Barangay/City/Town/Province)

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Form Type

SEC FORM 17Q
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Department requiring the report

CGFD
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Secondary License Type, If Applicable

N/A
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### COMPANY INFORMATION

Company's Email Address

<a href="#">N/A</a>
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Company's Telephone Number/s

8843-1511
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Mobile Number

N/A
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No. of Stockholders

4,228
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Annual Meeting  
Month/Day

Last Thursday of June (Per AOI)
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Fiscal Year  
Month/Day

12/31
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### CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person

MELLINA T. CORPUZ
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Email Address

<a href="mailto:meline_c@solidgroup.com.ph">meline_c@solidgroup.com.ph</a>
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Telephone Number/s

8843-1511
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Mobile Number

N/A
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Contact Person's Address

2285 DON CHINO ROCES AVENUE MAKATI CITY
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Note: 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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

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, 2021
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) 8843-15-11
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
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Common Stock, P1 par value	1,821,542,000 shares
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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
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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, 2021 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 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Revenue growth(decline)	24%	(56%)
Asset turnover	12%	10%
Operating expense ratio	25%	37%
EBITDA	P47 million	P34 million
EPS	P0.009	(P0.002)
Current ratio	11.65:1	13.15:1
Debt to equity ratio	0.14:1	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 rose by 24% for the first quarter of 2021 vs. 56% decrease for the same period in 2020 principally due to higher revenues of the distribution and technical support & solutions business segments.

Asset turnover stood at 12% for the first quarter of 2021 versus 10% for the first quarter of 2020 as a result of higher revenues reported for the period.

Operating expense ratio dropped to 25% for the first quarter of 2021 from 37% for the same period of 2020 principally due to higher revenues for the period.

EBITDA grew to P47 million for the first quarter of 2021 from P34 million for the same period in 2020. This was mainly driven by better performance of the technical support and solution and the distribution segments although the distribution segment still registered net loss.

Earnings per share went up to P0.009 for the first quarter of 2021 from loss per share of P0.002 for the same period in 2020 mainly from higher net income for the period.

Current ratio was 11.65:1 as of March 31, 2021 and 13.15:1 as of December 31, 2020 primarily due to increase in current liabilities.

Debt to equity ratio stood at 0.14:1 as of March 31, 2021 from 0.13: 1 as of December 31, 2020 primarily due to higher liabilities.

### **Results of Operations**

Revenues improved by 24% in the first quarter of 2021 reaching P362 million from P291 million for the same period in 2020 from higher revenues of the distribution and technical support & solutions business segments as explained below.

Sale of goods grew by 205% to P148 million for the first quarter of 2021 from P48 million for the same period in 2020 mainly due to higher volume of sales of the distribution and technical support and solutions segments. MySolid Technologies and Devices Corporation (MySolid) of the distribution segment took over the direct distribution for VisMin upon the withdrawal of its distributor for the said area, resulting to higher sales albeit lower service income. Moreover, the Company registered improved sales of prefabricated modular houses under the distribution segment as well as sale of tablet devices to government units of the technical support and solution segment in relation to online based classes.

Service revenue fell to P142 million for the first quarter of 2021, down by 6% for the same period in 2020 of P150 million mainly due to decline in revenues from hotel and events operations of the property and related services segment as a result of travel restrictions imposed during the pandemic and ban of mass gathering.

Rental income slightly grew by 2% to P62 million for the first quarter of 2021 from P61 million for the same period in 2020 mainly due to higher occupancy.

Interest income dropped to P8 million for the first quarter of 2021, down by 73% from P30 million for the same period in 2020 due to lower interest rates.

Sale of real estate was nil for the first quarter of 2021 and 2020.

Cost of sales, services, real estate sold and rentals grew to P261 million for the first quarter of 2021, a 34% escalation from P194 million for the same period in 2020 as discussed below.

Cost of sales reached P119 million for the first quarter of 2021, an increase of 153% from P47 million for the same period of last year in relation to increase in sales.

Cost of services amounted to P106 million for the first quarter of 2021 from P111 million for the same period of 2020, down by 4 % mainly associated to lower service revenue.

Cost of rentals was maintained at P35 million for the first quarter of 2021 and 2020. There was no material change for this account.

Gross profit went up to P100 million from P97 million for the same period in 2020. Despite the improved revenues, gross profit was only higher by 4% as indicated by the higher sales and lower service income of the distribution segment.

Other operating expenses (income) amounted to P81 million for the first quarter of 2021 from P93 million for the same period of 2020 as explained below.

General and administrative expenses dropped by 9% to P80 million for the first quarter of 2021 from P88 million for the same period of 2020 mainly due to lower personnel cost of the distribution segment.

Selling and distribution costs decreased by 38% to P11 million for the first quarter of 2021 from P18 million for the same period of 2020 mainly from lower manpower, warranty and professional fees of the distribution and property and related services segments.

Other operating income – net declined to P10 million for the first quarter of 2021, down by 24% from P13 million for the same period in 2020 principally due to lower income from utilities charged to tenants of the property and related services segment.

Operating profit (loss) improved by 444% to P19 million for the first quarter of 2021 from P3.5 million for the same period in 2020, associated with the decline in other operating expenses as explained above.

Other income (charges) went down to P5.6 million income for the first quarter of 2021 against P7 million for the same period in 2020 mainly from the following:

Finance costs dropped by 23% to P0.7 million for the first quarter of 2021 from P0.9 million in 2020 primarily due to interest expense in 2020, nil in 2021 offset by higher foreign currency exchange loss.

Finance income fell by 25% to P5 million for the first quarter of 2021 as compared with P7 million for the same period of last year mainly due to lower interest income from lower yield of investible funds compensated by higher foreign currency gains.

Other gains - net amounted to P0.7 million income in the first quarter of 2021, or higher by 48% compared with P0.5 million of the previous year mainly from gain on sale of property and other gains.

Profit before tax was P24.9 million for the first quarter of 2021, an increase of 135% from P10.5 million for the same period in 2020 mainly due to higher operating profit mentioned above.

Tax expense went down to P8.5 million for the first quarter of 2021 from P10.5 million for the same period in 2020. Notwithstanding the greater pre-tax income, tax expense was lower attributable decline in corporate income tax rates to 25% from the implementation of CREATE Law. Also, given that the CREATE Law was signed after the end of 2020 reporting period and the Company determined that this event was a non-adjusting subsequent event in the 2020 financial statements, the tax income relative to the retroactive effect of the CREATE Law to July 1, 2020 of P4 million was reported as tax income in the 1<sup>st</sup> quarter of 2021.

Net profit increased to P16 million for the first quarter of 2021 against P65 thousand net profit for the same period in 2020 due to the better performance of the technical support and solution and the distribution segments although the distribution segment still registered net loss. In addition, the Company posted tax income as explained above in relation to the CREATE Law.

Net loss attributable to equity holders of the parent amounted to P16 million for the first quarter of 2021 against P2.7 million net profit in for the same period of 2020 as discussed above.

Net profit attributable to non-controlling interest (NCI) amounted to P16 million for the first quarter of 2021 compared with P2.7 million net loss in 2020 primarily due to higher minority share in net income for the period.

### **Financial Position**

Cash and cash equivalents amounted to P1,021 million as of March 31, 2021 up by 11% from P918 million as of December 31, 2020. Cash was primarily provided from operating activities mainly from decrease in other current assets and trade & other payables.

Short-term placements was slighter lower at P3,316 million as of March 31, 2021 from P3,326 million as of December 31, 2020 from maturities of time deposits.

Trade and other receivables reached P353 million as of March 31, 2021 against P315 million as of December 31, 2020, an increase of 12% from higher receivables of the property & related services and distribution segments. 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 went up to P27 million as of March 31, 2021, up by 25% from P21 million as of December 31, 2020 from deposits for future stock subscription of the investment and other segment.

Merchandise inventories and supplies - net amounted to P209 million as of March 31, 2021, increasing by 6% compared with P198 million as of December 31, 2020 mainly from higher merchandise and finished goods of the distribution segment.

Real estate inventories stood at P437 million as of March 31, 2021 and December 31, 2020. There was no change for this account.

Other current assets went down by 19% to P284 million as of March 31, 2021 compared with P351 million as of December 31, 2020 mainly due to lower deferred cost and prepayments.

Total current assets reached P5,650 million as of March 31, 2021 from P5,568 million as of December 31, 2020 mainly from higher cash and cash equivalents and trade and other receivables-net offset by lower other current assets as discussed above.

Non-current trade and other receivables stood at P757 million as of March 31, 2021 from P750 million as of December 31, 2020. There was no material change for this account.

Financial assets at fair value through other comprehensive income amounted to P24.1 million as of March 31, 2021 and December 31, 2020. There was no change for this account.

Property and equipment amounted to P1,670 million as of March 31, 2021 from P1,680 million as of December 31, 2020. There was no material change for this account.

Investment property increased to P4,039 million as of March 31, 2021 from P4,035 as of December 31, 2020. There was no material change for this account.

Rights-of-use (ROU) assets – net was P8.5 million as of March 31, 2021, lower by 11% from P9.5 million as of December 31, 2020 from depreciation of ROU assets under PFRS 16, Leases.

Post-employment benefit assets stood at P 138 million as of March 31, 2021 and as of December 31, 2020. There was no change for this account.

Deferred tax assets - net amounted to P70 million as of March 31, 2021 and as of December 31, 2020. There was no change for this account.

Other non-current assets amounted to P26 million as of March 31, 2021 and P26.4 million as of December 31, 2020. There was no material change for this account.

Total non-current assets amounted to P6,735 million as of March 31, 2021 and as of December 31, 2020 as discussed above.

**Total assets reached P12,385 million as of March 31, 2021 from P12,303 million as of December 31, 2020 as discussed above.**

Trade and other payables rose to P456 million as of March 31, 2021 against P397 million as of December 31, 2020, up by 15% due to higher trade and non-trade payables of the distribution and technical support and solution segments.

Customers' deposits stood at P15.7 million as of March 31, 2021 and December 31, 2020. There was no material change for this account.

Lease liabilities went down by 12% to P3.6 million as of March 31, 2021 from P4.1 million as of December 31, 2020 due to payments of lease liabilities.

Advances from related parties amounted to P1.8 million as of March 31, 2021 and as of December 31, 2020. No change for this account.



Income tax payable rose by 57% to P7.2 million as of March 31, 2021 from P4.6 million as of December 31, 2020 mainly from tax expense for the period.

Total current liabilities increased to P484 million as of March 31, 2021 from P423 million as of December 31, 2020 due to higher trade and other payables.

Non-current refundable deposits amounted to P29 million as of March 31, 2021 from P28.8 million as of December 31, 2020. There was no material change for this account.

Non-current lease liabilities was pegged at P6 million as of March 31, 2021 and as of December 31, 2020. No change for this account.

Post-employment benefit obligation stood at P27.5 million as of March 31, 2021 and as of December 31, 2020. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P961 million as of March 31, 2021 and as of December 31, 2020. There was no change for this account.

Total non-current liabilities amounted to P 1,024 million as of March 31, 2021 from P1,023 million as of December 31, 2020.

**Total liabilities amounted to P1,508 million as of March 31, 2021 from P1,447 million as of December 31, 2020.**

Capital stock stood at P2,030 million as of March 31, 2021 and December 31, 2020.

Additional paid-in capital was pegged at P4,641 million as of March 31, 2021 and December 31, 2020.

Treasury shares amounted to P115 million as of March 31, 2021 and December 31, 2020.

Revaluation reserves rose by 37% to P14.9 million as of March 31, 2021 from P10.9 million as of December 31, 2020 due to gains on currency exchange differences in translating financial statements of foreign operation.

Retained earnings increased to P3,937 million as of March 31, 2021 from P3,921 million as of December 31, 2020 as a result of net profit attributable to parent during the period.

Total equity attributable to Equity holders of Parent amounted to P10,509 million as of March 31, 2021 and P10,489 million as of December 31, 2020.

Non-controlling interests amounted to P366 million as of March 31, 2021 and as of December 31, 2020. There was no material change for this account.

**Total equity amounted to P10,876 million as of March 31, 2021 from P10,856 million as of December 31, 2020.**

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 2021 to amount to P1.26 billion for various real estate development, renovation and upgrade of facilities and transportation equipment. 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

The World Health Organization (WHO) declared the coronavirus disease (COVID-19) outbreak a public health emergency of international concern on January 20, 2020 and a pandemic on March 11, 2020. President Duterte declared the country in a state of public health emergency on March 9, 2020 and Metro Manila and entire Luzon area under Enhanced Community Quarantine (ECQ) on March 17, 2020, followed by other cities and provinces. This measure imposed restricted movement and temporary closures of non-essential establishments. The strict quarantine was gradually eased in May 2020 leading to gradual reopening of the economy and businesses. Most of our businesses resumed operation in June 1, 2020 except the hotel and events business of Green Sun under the property & related services segment. On March 1, 2021, the Philippines started its vaccination roll-out. In March 2021, amid the sudden surge of the infections, President Duterte declared Metro Manila, Rizal, Bulacan, Laguna and Cavite (NCR Plus) under ECQ from March 29 to April 11, 2021 in an effort to slow the outbreak worse than last year. Since then, NCR Plus gradually opened up its businesses. However, due to the uncertainty of permanent business reopening fueled by soaring number of infections, the Company expects its group-wide revenues and income from continuing operations and financial condition to be negatively impacted by this pandemic.

Alongside the sales decline in 2020 due to the pandemic, MySolid Technologies & Devices Corporation (MySolid), a wholly owned subsidiary of the Company under the distribution segment also pursued a business model of earning service income equivalent to percentage of sales of MyPhone products when it assigned the distribution of MyPhone products to its local distributors/importers in last quarter of 2019. While MySolid sold its most of its products under

this distribution model, it lost its key distributor in 2020. Furthermore, a corporate restructuring has been ongoing including a review of operations, market situation and new technologies towards sustainability in the long term. The Company expect the distribution segment to generate improved revenues in 2021 with break-even results.

In August 2019, Kita Corporation (Kita), a wholly owned subsidiary of the Company, 25 year-contract of lease with Clark Development Corporation (CDC) covering parcels of land had expired. In 2019, Kita had surrendered certain buildings to Clark International Airport Corporation since these locations are part of the site for the second Clark Airport runway. The Company is currently negotiating with CDC for the renewal of lease contract of the remaining building. As a result, the Company expects Kita to incur losses in 2021.

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

As explained in section v. under known trends, events and uncertainties above, MySolid Technologies & Devices Corporation (MySolid), a wholly owned subsidiary of the Company under the distribution segment also pursued a business model of earning service income equivalent to percentage of sales of MyPhone products when it assigned the distribution of MyPhone products to its local distributors/importers in the last quarter of 2019. The change in distribution model, loss of key distributor in 2020 and business interruption from this pandemic contributed to significant drop in revenues of MySolid of about 80% in 2020. In 2021, MySolid took over the direct distribution for VisMin upon the withdrawal of its distributor for the said area, resulting to better topline (higher sales albeit lower service income).

Based on the appraisal reports obtained in 2020, the Company reported fair value gains on investment property of P265 million as at year-end of 2020.

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

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.

A handwritten signature in black ink, appearing to be 'SUSAN L. TAN', written over a horizontal line.

SUSAN L. TAN

President & Chief Executive Officer

A handwritten signature in black ink, appearing to be 'VINCENT S. LIM', written over a horizontal line.

VINCENT S. LIM

SVP & Chief Financial Officer and Chief Risk Officer

May 20, 2021

# **Solid Group Inc. and Subsidiaries**

Unaudited Consolidated Financial Statements as of March 31, 2021 and  
for the Three Months Ended March 31, 2021 and March 31, 2020

(with Comparative Audited Consolidated Statements of Financial Position  
as of December 31, 2020)

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2021 AND DECEMBER 31, 2020**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	P	1,021,567,714	P 918,335,159
Short-term placements		3,316,618,613	3,326,476,937
Trade and other receivables - net		353,848,343	315,156,350
Advances to related parties		27,052,451	21,572,451
Merchandise inventories and supplies - net		209,510,546	198,355,670
Real estate inventories - net		437,128,195	437,128,195
Other current assets		284,352,261	351,459,204
Total Current Assets		5,650,078,123	5,568,483,966
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables		757,402,813	750,895,379
Financial assets at FVOCI		24,100,000	24,100,000
Property and equipment - net		1,670,728,827	1,680,005,586
Investment properties - net		4,039,464,554	4,035,019,552
Right-of-use asset - net		8,526,902	9,549,297
Post-employment benefit asset		138,381,533	138,381,533
Deferred tax assets - net		70,838,052	70,838,052
Other non-current assets - net		26,034,511	26,471,792
Total Non-current Assets		6,735,477,192	6,735,261,191
<b>TOTAL ASSETS</b>	<b>P</b>	<b>12,385,555,315</b>	<b>P 12,303,745,157</b>

	<u>Notes</u>	<u>2021</u>	<u>2020</u>	
<b><u>LIABILITIES AND EQUITY</u></b>				
<b>CURRENT LIABILITIES</b>				
Interest-bearing loans	P	-		
Trade and other payables		456,281,396	397,195,540	
Customers' deposits		15,741,345	15,717,370	
Lease liabilities		3,632,757	4,150,895	
Advances from related parties		1,881,570	1,881,570	
Income tax payable		7,265,995	4,620,256	
		<u>484,803,063</u>	<u>423,565,631</u>	
<b>NON-CURRENT LIABILITIES</b>				
Refundable deposits		29,099,010	28,889,217	
Lease liabilities		6,370,471	6,370,471	
Post-employment benefit obligation		27,595,698	27,595,698	
Deferred tax liabilities - net		961,012,498	961,012,498	
		<u>1,024,077,677</u>	<u>1,023,867,884</u>	
Total Non-current Liabilities		<u>1,024,077,677</u>	<u>1,023,867,884</u>	
Total Liabilities		<u>1,508,880,740</u>	<u>1,447,433,515</u>	
<b>EQUITY</b>				
Equity attributable to the				
Parent Company's stockholders				
Capital stock		2,030,975,000	2,030,975,000	
Additional paid-in capital		4,641,701,922	4,641,701,922	
Treasury shares - at cost	(	115,614,380)	(	115,614,380)
Revaluation reserves		14,959,854	10,921,262	
Retained earnings		3,937,824,411	3,921,769,622	
		<u>10,509,846,807</u>	<u>10,489,753,426</u>	
Total equity attributable to the		<u>10,509,846,807</u>	<u>10,489,753,426</u>	
Parent Company's stockholders		<u>10,509,846,807</u>	<u>10,489,753,426</u>	
Non-controlling interests		<u>366,827,768</u>	<u>366,558,216</u>	
Total Equity		<u>10,876,674,575</u>	<u>10,856,311,642</u>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P</b>	<b><u>12,385,555,315</u></b>	<b>P</b>	<b><u>12,303,745,157</u></b>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE MONTHS ENDED MARCH 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>REVENUES</b>			
Sale of goods	P	148,717,750	P 48,716,808
Rendering of services		142,179,702	150,582,077
Rentals		62,998,511	61,869,623
Interest		8,110,371	30,231,010
Sale of real estate		<u>-</u>	<u>-</u>
		<u>362,006,334</u>	<u>291,399,518</u>
<b>COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS</b>			
Cost of sales		119,407,615	47,210,176
Cost of services		106,684,236	111,620,939
Cost of rentals		35,227,257	35,522,841
Cost of real estate sold		<u>-</u>	<u>-</u>
		<u>261,319,108</u>	<u>194,353,956</u>
<b>GROSS PROFIT</b>		<u>100,687,226</u>	<u>97,045,562</u>
<b>OTHER OPERATING EXPENSES (INCOME)</b>			
General and administrative expenses		80,624,675	88,911,702
Selling and distribution costs		11,143,912	18,092,418
Other operating loss (income) - net	(	<u>10,303,798</u> )	( <u>13,492,251</u> )
		<u>81,464,789</u>	<u>93,511,869</u>
<b>OPERATING PROFIT (LOSS)</b>		<u>19,222,437</u>	<u>3,533,693</u>
<b>OTHER INCOME (CHARGES)</b>			
Finance costs	(	742,673)	( 958,519)
Finance income		5,640,150	7,487,429
Other gains (losses) - net		<u>787,208</u>	<u>531,243</u>
		<u>5,684,685</u>	<u>7,060,153</u>
<b>PROFIT (LOSS) BEFORE TAX</b>		24,907,122	10,593,846
<b>TAX EXPENSE (INCOME)</b>		<u>8,582,781</u>	<u>10,528,262</u>
<b>NET PROFIT (LOSS)</b>	P	<u>16,324,341</u>	P <u>65,584</u>
<b>Net Profit (Loss) for the period attributable to the:</b>			
Parent Company's stockholders	P	16,054,789	( P 2,786,478)
Non-controlling interests		<u>269,552</u>	<u>2,852,062</u>
	P	<u>16,324,341</u>	P <u>65,584</u>
<b>Earnings (Loss) per share attributable to the Parent Company's stockholders</b>	P	<u>0.009</u>	( P <u>0.002</u> )

*See Notes to Consolidated Financial Statements.*



**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE MONTHS ENDED MARCH 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020
<b>NET PROFIT (LOSS)</b>	<b>P</b>	<b>16,324,341</b>	<b>P 65,584</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Items that will be reclassified subsequently to profit or loss:			
Currency exchange differences on translating financial statements of foreign operations		4,038,592	2,646,792
Other comprehensive income (loss) – net of tax		4,038,592	2,646,792
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P</b>	<b>20,362,933</b>	<b>P 2,712,376</b>
<b>Total comprehensive income (loss) attributable to:</b>			
Parent Company's stockholders	<b>P</b>	20,093,381	( P 139,686 )
Non-controlling interests		269,552	2,852,062
	<b>P</b>	<b>20,362,933</b>	<b>P 2,712,376</b>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE MONTHS ENDED MARCH 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020	
<b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS</b>				
<b>CAPITAL STOCK - P1 par value</b>				
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 - at cost</b>				
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		10,921,262		18,545,180
Other comprehensive income (loss) for the period		4,038,592		2,646,792
Balance at end of the period		14,959,854		21,191,972
<b>RETAINED EARNINGS (DEFICIT)</b>				
Balance at beginning of year				3,701,620,122
As previously reported		3,921,769,622		
Profit (loss) for the period attributable to				
Parent Company's stockholders		16,054,789	(	2,786,478)
Cash dividends		-	(	-
Balance at end of the period		3,937,824,411		3,698,833,644
Total Equity Attributable to the Parent Company's stockholders		10,509,846,807		10,277,088,158
<b>NON-CONTROLLING INTERESTS</b>				
Balance at beginning of year		366,558,216		363,651,993
Profit (loss) for the period attributable to				
Non-controlling interests		269,552		2,852,062
Balance at end of the period		366,827,768		366,504,055
<b>TOTAL EQUITY</b>	P	10,876,674,575	P	10,643,592,213

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE MONTHS ENDED MARCH 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit (loss) before tax		24,907,122	10,593,846
Adjustments for:			
Interest income	(	10,017,247)	( 35,606,345)
Depreciation and amortization		22,193,107	22,452,679
Interest expense		-	851,128
Unrealized foreign currency losses (gains) - net	(	3,637,470)	( 1,324,155)
Loss (gain) on sale of property and equipment	(	132,143)	( 6,349)
Operating profit before working capital changes		<u>33,313,369</u>	( 3,039,196)
Decrease (increase) in short-term placements		9,858,324	
Decrease (increase) in trade and other receivables	(	45,375,501)	64,868,499
Decrease (increase) in merchandise inventories and supplies	(	11,154,876)	18,063,084
Decrease (increase) in real estate inventories		-	
Decrease (increase) in advances to related parties	(	5,480,000)	974,060
Decrease (increase) in other current assets		64,109,281	703,673,983
Decrease (increase) in other non-current assets		437,281	( 3,456,117)
Increase (decrease) in trade and other payables		59,085,856	( 68,123,139)
Increase (decrease) in customers' deposits		23,975	4,482,735
Increase (decrease) in advances from related parties		-	33,948
Increase (decrease) in refundable deposits		209,793	197,795
Increase (decrease) in retirement benefit obligation		-	
Increase (decrease) in deferred tax liabilities		-	-
Cash generated from (used in) operations		<u>105,027,502</u>	717,675,652
Interest received		11,086,288	16,326,207
Cash paid for income taxes	(	<u>1,319,256</u> )	( 971,544)
Net Cash From (Used in) Operating Activities		<u>114,794,534</u>	<u>733,030,315</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (acquisitions) of property and equipment	(	11,761,810)	( 5,828,738)
Interest received		1,525,501	4,300,268
Proceeds from disposal of property and equipment			
Decrease (additions) to investment property	(	<u>4,445,002</u> )	( 12,078,217)
Net Cash From (Used in) Investing Activities	(	<u>14,681,311</u> )	( 13,606,687)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from (repayments of) interest-bearing loans - net		-	
Payment of lease liabilities and interest expense	(	518,138)	( 2,413,599)
Interest paid		-	( 1,602,462)
Net Cash From (Used in) Financing Activities	(	<u>518,138</u> )	( 4,016,061)
<b>Effect of Currency Rate Changes on Cash and Cash Equivalents</b>		<u>3,637,470</u>	<u>1,324,155</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		103,232,555	716,731,722
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>918,335,159</u>	<u>3,491,034,266</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>P</b>	<u>1,021,567,714</u>	<u>P 4,207,765,988</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2021 and DECEMBER 31, 2020**  
*(Amounts in Philippine Pesos)*

**1. GENERAL 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. 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 effective 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
	2021	2020		
Brilliant Reach Limited (BRL)	100	100	a	Investment holding company
Green Sun Hotel Management, Inc. (GSHMI)	100	100		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. (OSSSI)	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	d	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	b	Hotel and restaurant operation
Skyworld Corporation (Skyworld)	75	75	b, c	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	73	73	b	Investment holding company
Starworld Corporation (Starworld)	50	50	b, e	Real estate
Laguna International Industrial Park, Inc. (LIIP)	50	50	b, f	Real estate

*Notes:*

- (a) *Incorporated and domiciled in the British Virgin Islands*
- (b) *Indirectly owned through SMC*
- (c) *Pre-operating or non-operating*
- (d) *Formerly Solid Electronics Corporation; changed its corporate name effective September 28, 2018*
- (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 26.3).

SMFI is subject to the rules and regulations provided under RA No. 8556, *The Financing Group Act of 1998* (see Note 31).

## **1.2 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	- N7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	- Solid St., LIIP, Mamplasan, Biñan, Laguna
SEC	- 145 G. Araneta Avenue, 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 St., Brgy. 659-A, District 5, Ermita, Manila

## **1.3 Impact of COVID-19 Pandemic on the Group's Business**

The coronavirus disease (COVID-19) started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Group's business operations.

The following are the impact of the COVID-19 pandemic to the Group's business for the year 2020:

- decline in total revenues in 2020 by 55.9% or P1,490.6 million compared to that of 2019;
- decline in total costs of sales, services, rentals and real estate sales in 2020 by 62.3% or P1,244.3 million compared to that of 2019;
- decline in selling and distribution costs in 2020 by 76.0% or P131.4 million compared to that of 2019;
- recognition of impairment on trade and other receivables, advances to related parties, land and land development costs and intangible assets amounting to P13.0 million, P5.7 million, P0.6 million and P0.3 million, respectively (see Notes 6.7, 9.1, 13.1, 18 and 25.4);
- temporary closure of hotels and branches and suspension of operations;
- retrenchment of employees;
- rental discounts were granted upon request by several lessees;
- SMFI granted two to four months grace period to its customers for the repayment of loans as mandated under RA No. 11469, *Bayaniban to Heal as One Act*; and,
- additional administrative expenses were incurred to ensure health and safety of its employees such as frequent disinfection of workplace, provision of protective equipment such as face masks, face shields and alcohol and COVID-19 testing for the employees.

In response to this matter, the Group has taken the following actions:

- deferred the construction of its planned projects and other capital expenditures, including the construction of Tower 3 of the Tri Towers condominium building, to manage the Group's available funds (see Note 9.2);
- deferred payment of annual dividends;
- entered into transaction with certain government agencies for the sale of prefabricated modular houses as quarantine facilities (see Note 4.1);
- implemented cost-saving strategies such as reduction of expenses incurred for equipment costs, advertising and promotions, transportation and travel, installation costs and utilities and communication;
- implemented safety measures and activated business continuity plan; and,
- implemented a flexible working arrangement to lessen exposure of the employees to the virus.

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, it projects that the Group would continue to report positive results of operations and would remain liquid to meet current obligation as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

#### ***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, 2020 (including the comparative consolidated financial statements as of December 31, 2019 and for the years ended December 31, 2019 and 2018) were authorized for issue by the Parent Company's BOD on April 8, 2021.

## **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.

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

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

(c) *Functional and Presentation Currency*

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

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

## **2.2 Adoption of New and Amended PFRS**

(a) *Effective in 2021 that are Relevant to the Group*

There are no PFRS that are relevant to the Group to be adopted effective for annual periods beginning on January 1, 2021.

(b) *Effective Subsequent to 2021 but not Adopted Early*

There are pronouncements effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the relevant pronouncements below and in the succeeding page in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements.

- (i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- (ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- (iii) PFRS 3 (Amendments), *Business Combination – Reference to the Conceptual Framework* (effective January 1, 2022). The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard.
- (iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Group:
  - a. PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 percent' Test for Derecognition of Liabilities*. The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
  - b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes from the example the illustration of the reimbursement of leasehold

improvements by lessor in order to resolve any potential confusion regarding the treatment of lease incentives.

- (v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
- (vi) 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 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 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 2.12).

*(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 BOD, its chief operating decision-maker. The BOD 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 Instruments*

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument.

### (a) *Financial Assets*

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

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

### (i) *Classification and Measurement of Financial Assets*

The classification and measurement of financial assets are driven by the Group'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:

#### *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 (SPPI) on the principal amount outstanding.
- Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Short-term Placements, Trade and Other Receivables, Advances to Related Parties, Refundable deposits (presented as part of Other Current Assets account) and Refundable deposits, Deposit to suppliers and Cash bond (presented as part of Other Non-current Assets account).

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

For purposes of cash flow reporting and presentation, 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.

Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

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

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

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

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal 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, 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.

Interest income on financial assets measured at amortized cost and debt financial assets measured at FVOCI is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

If applicable, 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 and or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves. Interest income earned is recognized as part of Finance Income under Other Income (Charges) account in the consolidated statement of income.

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

financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

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

(ii) *Impairment of Financial Assets*

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

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables, except for loans receivables with significant financing component, and advances to related parties. 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 using a provision matrix, the Group uses its historical experience, external indicators and forward-looking information. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Note 28.2(b) and (c)].

For loans receivables, which is presented under Trade and Other Receivables account in the consolidated statement of financial position, the Group recognizes lifetime ECL when there has been a significant increase in credit risk on a financial asset since initial recognition. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial asset, irrespective of the timing of the default. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures and provides for credit losses that are expected to result from default events that are possible within 12-months after the end of the reporting period.

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

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

- *Probability of default (PD)* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss given default (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 or effect of any credit enhancement.
- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

If applicable, an impairment loss is recognized in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

(iii) *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.

(b) *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 as part of Finance costs under Other Income (Charges) account 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. The outstanding amount of interest-bearing loans is nil as of December 31, 2020. 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 end of 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 the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the 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.

*(c) Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on 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.

## **2.6 Merchandise Inventories and Supplies**

Inventories are valued at the lower of cost and net realizable value (NRV). 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.

Subsequent to initial recognition, land and land development costs and property development costs are stated at the lower of cost and net realizable value. Net realizable value 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. An item of land and land development cost is derecognized upon disposal or when no future economic benefits are expected to arise from the sale of asset.

## **2.8 Other Assets**

Other assets, which are non-financial assets, pertain to other resources controlled by the Group as a result of past events. They are recognized at cost 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. These are subsequently charged to profit or loss as utilized or reclassified to another asset account, if capitalizable.

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.

Advances to suppliers that will be applied as payment for future purchase of merchandise inventories and supplies are classified and presented under the Other Current Assets account. On the other hand, advances to contractors and/or suppliers that will be applied as payment for future acquisition or construction of items of property and equipment, or acquisition and construction of investment property are classified and presented under the Other Non-Current Assets account. The classification and presentation is based on the eventual usage or realization of the asset to which it was advanced for.

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 2.17).

## ***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.

Construction in progress pertains to the accumulated costs of putting up the assets, additions or improvements including the applicable borrowing cost (see Note 2.19).

Cost is recognized when materials purchased and services performed in relation to construction of the asset have been delivered or rendered. When the asset has become available for use, the accumulated cost is transferred to the appropriate asset account, and depreciation is recognized based on the estimated useful life of such asset.

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

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 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 2.17).

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 profit or loss in the year the item is derecognized.

### ***2.10 Intangible Assets***

Intangible assets presented under Other Non-current Assets account in the consolidated statement of financial position, include non-proprietary club shares and computer software licenses, 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 non-proprietary 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 2.17).

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

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

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

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

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 12).



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 other accounts (such as Land and Land Development Costs and Property and Equipment) are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers from investment property are made when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent measurement is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

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 as part of Other Operating Expenses (Income) account 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 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, except for lease liabilities which are measured based on the present value of the remaining lease payments as if the acquired lease were a new lease at acquisition date and right-of-use assets which are measured at an amount equal to the recognized lease liability, adjusted to reflect favorable or unfavorable lease terms compared with market terms. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.17).

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 the 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 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.

### ***2.13 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.

### ***2.14 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.

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.

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

- (i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- (ii) each party's rights regarding the goods or services to be transferred or performed can be identified;

- (iii) the payment terms for the goods or services to be transferred or performed can be identified;
- (iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
- (v) collection of the consideration in exchange of the goods and services is probable.

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

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

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

The 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(b)]:

- (a) *Rendering of services (other than commission income)* – Revenue, which primarily arise from service fees, room and events services, assembly and test lab services, warehousing and warranty and repair 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 of time.
- (b) *Sale of goods* – Revenue, which primarily include the sale of handsets, devices, accessories, equipment, appliances and modular houses, 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 and network support fee is recognized over time 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*
  - (i) *Sale of real estate on pre-completed real estate properties* – Revenue from real estate sales is recognized over time proportionate to the progress of the development. The Group measures its progress based on actual costs incurred relative to the total expected costs to be incurred in completing the development.

- (ii) *Sale of real estate on completed real estate properties* – Revenue from real estate sales is recognized at point in time when the control over the real estate property is transferred to the buyer.

Payments received from buyers which do not meet the revenue recognition criteria are presented as Customers Deposits account in the consolidated statement of financial position.

As an accounting policy for real estate properties to be constructed, revenue is recognized based on the percentage-of-completion method determined through the input method as the construction services are provided. The stage of completion is measured on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation (i.e., resources consumed, labor hours expended, other costs incurred, etc.) relative to the total expected inputs to the satisfaction of such performance obligation.

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)* – Commission income is recognized over time when the performance of contractually agreed tasks have been substantially rendered.
- (f) *Service charges and penalties* – Revenue is generally recognized over time when the service has been provided and when there is reasonable degree of certainty as to their collectability.

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 obtaining customer contracts, the Group incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Group uses the practical expedient in PFRS 15 and expenses such costs as incurred. The Group also incurs costs in fulfilling contracts with customers. However, as those costs are within the scope of other financial reporting standards, the Group accounts for those costs in accordance with accounting policies related to those financial reporting standards.

Cost and expenses are recognized in profit or loss upon utilization of goods or 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 2.19).

## **2.15 Leases**

The Group accounts for its leases as follows:

- (a) *Group as Lessee*

*(i) Accounting for Leases in Accordance with PFRS 16 (2020 and 2019)*

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

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

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.17).

On the other hand, the Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, right-of-use assets and lease liabilities have been presented separately from property and equipment and other liabilities, respectively.

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

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

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

*(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.

**2.16 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 as follows.

- (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.

**2.17 Impairment of Non-financial Assets**

The Group's property and equipment, intangible assets, right-of-use assets and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use

are tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets 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.

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

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the 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, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the

plan or benefit payments. Net interest is reported as part of Other Gains under the Other Income (Charges) account 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.

## **2.19 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.



## ***2.20 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 current tax 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 current tax 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 deferred tax 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 assets to be utilized.

The measurement of deferred tax assets and deferred tax liabilities 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 assets and deferred tax liabilities 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 deferred tax 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.

## ***2.21 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.

Based on the requirement of the SEC Memorandum Circular 2019-10, *Rules on Material Related Party Transactions for Publicly-Listed Companies*, transactions amounting to 10% or more of the total assets based on the latest audited financial statements that were entered into with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent director's vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% of the Group's consolidated total assets based on the latest consolidated audited financial statements, the same board approval would be required for the transactions that meet and exceeds the materiality threshold covering the same related party.

## **2.22 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.

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.

## **2.23 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.

## ***2.24 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 consolidated financial statements:

#### ***(a) Determination of Lease Term of Contracts with Renewal and Termination Options (2020 and 2019)***

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

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

The Group included the renewal period as part of the lease term for leases of some of its payment centers due to the significance of these assets to its operations. These leases have a short, non-cancellable lease period (i.e., one to five years) and there will be a significant negative effect on operations if a replacement is not readily available. However, there are other payment centers wherein the provision in the contract requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract; hence, renewal options for these leases were not included as part of the lease term.

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

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

*(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 Group'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 exercises critical judgment in determining whether the performance obligation to deliver and transfer the control over the real estate properties (i.e., land and condominium building) to customers is satisfied over time or at a point in time.

In making this judgment, the Group considers the delivery to and acceptance by the buyer of the property as a transfer of control at specific point in time since the Group does not have a significant continuing involvement with the property sold to the buyer and the earning process is virtually complete. Further, the Group's enforceable right for payment becomes due upon transfer of control over the real estate property. The Group's management determines that its revenue from sale of real estate inventories, which are completed and ready for use, shall be recognized at a point in time when the control has transferred to the customer (see Note 2.14).

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

The Group uses a provision matrix to calculate ECL for trade receivables. The provision matrix is based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

For loans receivables, the allowance for impairment 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 origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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, 25.4, 28.2(b) and 28.2(c).

*(d) 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.

*(e) 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.

*(f) Distinction Between Operating and Finance Leases for Contracts where the Group is the Lessor*

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.

*(g) 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 2.13 and the disclosures on relevant provisions and contingencies are presented in Note 27.

### **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) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2020)*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the

economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

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).

Specifically for loans receivables, the Group's ECL calculations are outputs of complex models with a number of underlying assumptions which include: (1) the Group's criteria for assessing if there has been a significant increase in credit risk; and, (2) development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Notes 6, 25.4, 28.2(b) and 28.2(c).

(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 and the amounts of fair value changes recognized on those assets are disclosed in Note 7.

(d) *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.

(e) *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 property at the same stage of completion, 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 Note 9.

*(f) Estimation of Useful Lives of Right-of-Use Assets, Property and Equipment and Intangible Assets*

The Group estimates the useful lives of right-of-use assets, property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of right-of-use assets, property and equipment and intangible assets 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 right-of-use assets, property and equipment and intangible assets are analyzed in Notes 10.1, 11 and 13.1, respectively. Based on management's assessment as at December 31, 2020 and 2019, 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.

*(g) 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 30.4.

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 Note 12.

*(h) Determination of Realizable Amount of Deferred tax assets*

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

The carrying value of recognized deferred tax assets, which management assessed may be fully utilized in the coming years, as at December 31, 2020 is disclosed in Note 22.2. 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.

*(i) 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 2.17). 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.

(j) *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 15.

(k) *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 21.2 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 21.2.

## 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) Distribution (previously categorized as Digital mobile) is involved in the sale of mobile phones and devices, and sale of prefabricated modular houses for 2020 as part of the Group's response to COVID-19 pandemic;
- (b) Property and related services is involved in the leasing, development and sale of industrial and other real estate properties 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 are allocated based on their use or direct association with a specific segment and they include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories, investment properties 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. Segment assets and liabilities do not include deferred taxes.

## 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, 2021 and December 31, 2020 and the related revenue and profit information for each of the period ended March 31, 2021 and March 31, 2020 (amounts in thousands):

	<u>Distribution</u>	<u>Property &amp; Related Services</u>	<u>Technical Support &amp; Solutions</u>	<u>Investment &amp; Others</u>	<u>Elimination</u>	<u>Total</u>
<b>2021</b>						
<b>SEGMENT RESULTS</b>						
Total revenues	P 69,908	P 73,393	P 221,432	P 27,922	(P 30,649)	P 362,006
Net profit (loss)	( 3,910)	(P 12,726)	P 26,286	(P 2,573)	P 9,247	P 16,324
<b>SEGMENT ASSETS AND LIABILITIES</b>						
Total assets	P 635,125	P 7,239,546	P 1,038,317	P 8,715,336	(P 5,242,769)	P 12,385,555
Total liabilities	P 677,268	P 2,263,541	P 263,039	P 389,798	(P 2,084,765)	P 1,508,881

	<u>Digital Mobile</u>	<u>Property &amp; Related Services</u>	<u>Technical Support &amp; Solutions</u>	<u>Investment &amp; Others</u>	<u>Elimination</u>	<u>Total</u>
<b>2020</b>						
<b>SEGMENT RESULTS</b>						
Total revenues	P 30,460	P 100,982	P 151,699	P 38,784	(P 30,526)	P 291,399
Net profit (loss)	( 15,542)	P 2,170	P 2,517	P 8,734	P 2,186	P 65
<b>SEGMENT ASSETS AND LIABILITIES</b>						
Total assets	P 737,153	P 7,266,848	P 1,012,496	P 8,709,240	(P 5,421,992)	P 12,303,745
Total liabilities	P 729,030	P 2,332,478	P 263,697	P 417,184	(P 2,294,555)	P 1,447,434

#### 4.5 *Disaggregation of Revenues from Contracts with Customers and Other Counterparties*

When the Group prepares its investor presentations and when the Group management evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment reporting as presented in Note 4.4. The Group determines that the categories used in the investor presentations and financial reports used by the Group's management can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers and other counterparties (except for rentals accounted for under PFRS 16 in 2020 included herein as additional information) into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A summary of additional disaggregation from the segment revenues and other unallocated income are shown below (amounts in thousands).

	<u>Segment Revenues (Sales to External Customers)</u>			
	<u>Point in time</u>	<u>Over time</u>	<u>Leases</u>	<u>Total</u>
<b><u>December 31, 2020</u></b>				
Distribution	P 144,416	P 61,146	P -	P 205,562
Technical support and solutions	130,809	361,605	-	492,414
Rentals	-	-	242,738	242,738
Property and building	1,442	56,213	-	57,655
Investments and others	-	93,167	-	93,167
	<b><u>P 276,667</u></b>	<b><u>P 572,131</u></b>	<b><u>P 242,738</u></b>	<b><u>P 1,091,536</u></b>

The Group's segment revenues (sales to external customers) include rendering of services, sale of goods, rentals and sale of real estate which are presented in the consolidated statements of income.

The Group's revenues also include interest income from short-term placements and loans receivable amounting to P8 million and P30 million in 2021 and 2020, respectively, and is presented as Interest under Revenues in the consolidated statements of income (see Notes 5 and 6.3).

## 5. CASH AND CASH EQUIVALENTS AND SHORT-TERM PLACEMENTS

### 5.1 *Cash and Cash Equivalents*

Cash and cash equivalents include the following components as at December 31:

	<u>2021</u>	<u>2020</u>
Cash on hand and in banks	<b>P 370,948,369</b>	P 381,955,327
Cash equivalents	<b><u>650,619,345</u></b>	<u>536,379,832</u>
	<b><u>P 1,021,567,714</u></b>	<u>P 918,335,159</u>

Cash in banks generally earn interest based on daily bank deposit rates. Cash equivalents pertain to highly liquid short-term investment with maturity periods varying from 1 to 90 days and earn annual interests ranging from 0.01% to 6.25% in 2020.

Interest income earned from cash in banks and cash equivalents are presented as part of Finance Income under Other Income (Charges) account in the consolidated statements of income (see Note 20.2).

## 5.2 Short-term Placements

Short-term placements, presented separately in the consolidated statements of financial position, pertain to time deposits amounting to P3,316.7 million and P3,326.5 million as of March 31, 2021 and December 31, 2020, respectively, with maturity periods varying between 91 to 294 days in 2021 and 2020, and earn effective interest ranging from 0.525% to 0.75% in 2021 and 0.52% to 4.25% in 2020.

Interest income earned from short-term placements is presented as part of Interest under Revenues account in the consolidated statements of income (see Note 4.6). The outstanding balance of such interest is presented as Interest receivable under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Current:			
Trade receivables	6.1, 25.5, 25.8, 25.9, 26.1, 26.3	<b>P 271,435,887</b>	P 265,387,193
Advances to:			
Suppliers	6.2, 25.1	<b>91,844,861</b>	80,375,049
Officers and employees	6.2, 25.10	<b>3,372,664</b>	2,843,312
Loans receivables	6.3, 25.3	<b>41,031,457</b>	23,152,970
Interest receivable	5	<b>4,056,088</b>	8,270,753
Rental receivables	6.5, 25.2	<b>39,653,518</b>	6,063,870
Non-trade receivables			5,155,456
Other receivables	6.6	<b>16,948,254</b>	<u>38,036,891</u>
			429,285,494
Allowance for impairment	6.7	<b>( 114,494,386)</b>	<u>( 114,129,144)</u>
		<b>353,848,343</b>	<u>315,156,350</u>
Non-current:			
Trade receivables		<b>8,163,915</b>	8,163,915
Loans receivables	6.3, 25.3	<b>15,775,309</b>	15,775,309
Cash surrender value of investment in life insurance	6.4, 14	<b>733,463,589</b>	<u>726,956,155</u>
		<b>757,402,813</b>	750,895,379
Allowance for impairment	6.7	<u>-</u>	<u>-</u>
		<b>757,402,813</b>	<u>750,895,379</u>
		<b>P 1,111,251,156</b>	<u>P 1,066,051,729</u>

All trade receivables are subject to credit risk exposure [see Note 28.2(b)]. The Group does not identify specific concentration of credit risk with regard to trade and other receivables as the amounts recognized resemble a large number of receivables from various customers.

### 6.1 Trade Receivables

Trade receivables include the Group's receivables related to the sold condominium units which are being paid for by the customers in monthly installments. Certain receivables from trade customers are covered by post-dated checks. Trade receivables are measured at amortized cost and have annual effective interest rates ranging from 4.60% to 24.63% in 2021 and 2020, depending on the payment terms. Trade receivables which are expected to be settled beyond one year after the end of the reporting period are classified as non-current trade and other receivables.

Interest income earned from real estate sales amounted to P269.5 and P337 thousand in 2020, and is presented as part of Finance Income under Other Income (Charges) account in the consolidated statements of income (see Note 20.2). Trade receivables from sale of goods are usually due within 30 to 45 days, generally unsecured and do not bear interest.

## **6.2 Advances**

Advances to suppliers mainly include advance payments made by My Solid for future purchases of mobile phone units and accessories (see Note 25.1). These also include advances made to various suppliers made by SVC for the purchase of pro-tapes, video and medical equipment, and spare parts.

Advances to officers and employees represent unsecured, noninterest-bearing cash advances for business-related expenditures and are subject to liquidation (see Note 25.10).

## **6.3 Loans Receivables**

Loans receivables pertain to appliances loans, business loans and car loans offered by SMFI to its customers. Loans receivables that are expected to be settled beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as part of non-current trade and other receivables.

In 2020, in response to the implementation of RA No. 11469, SMFI granted its borrowers the deferral of payments of principal and interest due for two to four months. The management assessed that the impact of deferral has no material impact on the Group's consolidated financial statements.

Interest income recognized on the Group's loans receivables amounted to P1.6 million and P1.4 million in 2021 and 2020, respectively, and are presented as part of Interest under the Revenues account of the consolidated statements of income (see Note 4.6). The effective interest rates on loans receivables range from 4.0% to 36.0% in 2021 and 2020..

## **6.4 Cash Surrender Value of Investment in Life Insurance**

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 Finance Income under Other Income (Charges) account in the consolidated statements of income (see Note 20.2). In 2020, the increase in cash surrender value amounted to P28.2 million.

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 14).

### 6.5 *Rental Receivables*

Rental receivables represent uncollected monthly receivables from a related party and third party tenants of the Group. This includes rent receivables arising from the application of PFRS 16, which represent the difference between the cash basis rent income and the straight-line rent income of all outstanding lease contracts as of the end of the reporting periods. PFRS 16 rent receivables amounted to P6.1 million as of December 31, 2020.

### 6.6 *Other Receivables*

Other receivables include amounts due from credit card companies for the sale of CCTV. This also includes deposits to supplier, testing fees and utility charges billed by the Group to its lessees. Further, this account consists of unsecured, noninterest-bearing cash advances made to the ZTC's Home Owners' Association for expenses incurred by the unit owners and rent receivables.

### 6.7 *Allowance for Impairment*

All of the Group's trade and other receivables have been assessed for impairment based on the ECL model. The fair value of these short-term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value. 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.

A reconciliation of the allowance for impairment on trade and other receivables at the beginning and end of 2020 is shown below.

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	<b>P 114,129,144</b>	P 103,786,556
Impairment losses during the year	-	14,833,359
Reversal of impairment losses	( - )	( 1,839,506)
Write-off of receivable	( - )	( 2,651,265)
Balance at end of year	<b><u>P 114,129,144</u></b>	<b><u>P 114,129,144</u></b>

The impairment losses and reversal of impairment losses is presented as Impairment losses on trade and other receivables – net under General and Administrative Expenses account in the consolidated statements of income (see Note 18).

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

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. In 2018, upon the adoption of PFRS 9, the Parent Company reclassified such investment from AFS financial assets to financial assets at FVOCI.

The Parent Company determined that the fair value of this investment is nil as of December 31, 2020.

On the other hand, the fair values of the Group's investments in club shares amounting to P24.1 million, which represent proprietary membership club shares, as of December 31, 2020, have been determined based on quoted prices in less active markets due to lack of trading activities among its participants (see Note 30.2).

In 2018, the Group derecognized certain equity securities with original cost of P362,000 and fair value of P267,880 as of December 31, 2018. Accumulated fair value loss amounting to P94,120 is presented as an addition to Revaluation Reserves in the 2018 consolidated statement of changes in equity (see Note 23.3). There was no similar transaction in 2020.

The recognized fair value losses - net are presented as item that will not be reclassified subsequently to profit or loss under Other Comprehensive Income (Loss) in the consolidated statements of comprehensive income.

## 8. MERCHANDISE INVENTORIES AND SUPPLIES

Inventories at the end of March 2021 and December 2020 were stated at lower of cost or NRV. The details of inventories are shown below.

	Note	<u>2021</u>	<u>2020</u>
Merchandise inventories	17.1	<b>P 239,555,794</b>	P 217,962,817
Service parts, supplies and others		<u>37,961,337</u>	<u>48,399,438</u>
		<b>277,517,131</b>	266,362,255
Allowance for inventory obsolescence		<b>( 68,006,585)</b>	( 68,006,585)
		<b><u>P 209,510,546</u></b>	<b><u>P 198,355,670</u></b>

The Group's inventories are composed of handsets, devices, spare parts, professional tapes, service supplies, equipment and accessories and modular houses. Handsets refer to tablets, devices pertain to mobile phones, and accessories pertain to jelly cases, headsets, power banks, memory cards, and others.

For annual year 2020, the Group made a reversal of provision for the write-down of inventories amounting to P10.4 million, upon sale of those inventories. The reversal is included as an adjustment to Cost of Sales in the consolidated statements of comprehensive income.

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as at March 31, 2021 and December 31, 2020.

An analysis of the cost of inventories charged to operations in 2020 is presented in Note 17.1.

## 9. REAL ESTATE INVENTORIES

This account is composed of:

	<u>2021</u>	<u>2020</u>
Land and land development costs:		
Land	<b>P 4,265,299</b>	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	<b>( 2,667,600)</b>	( 2,667,600)
	<b>36,879,222</b>	36,879,222

Property development costs – Construction in progress and development costs	<u>400,248,973</u>	<u>400,248,973</u>
	<b><u>P 437,128,195</u></b>	<b><u>P 437,128,195</u></b>

### ***9.1 Land and Land Development Costs***

Land and land development costs pertain to cost of land and related improvements, held by Starworld and LIIP, which are held for sale.

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 of December 31, 2020 and 2019, lot areas totaling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

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. In 2020, the management assessed that the probability that they may recover the carrying amount of the property is remote; hence, an impairment loss amounting to P0.6 million was recorded for the full impairment of such property and is presented as Impairment loss on land and land development costs under General and Administrative Expenses account in the 2020 consolidated statement of income (see Note 18).

Also, in 2008, in relation to the same property mentioned in the preceding paragraph, a judgment award against LIIP requiring it to pay an amount of P0.1 million was issued by the Court of Appeals. Such amount is presented as part of Other payables under Trade and Other Payables account in the 2019 consolidated statement of financial position (see Note 15). In 2020, the Group reversed the provision on award damages due to the expiration of the prescription period of the judgment made by the Court of Appeals and recorded such as Gain on reversal of provision under Other Gains – net account in the 2020 consolidated statement of income (see Note 20.3). Accordingly, the related provision is nil as of December 31, 2020.

### ***9.2 Property Development Costs***

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. Property development costs at the end of each reporting period represent condominium units for sale, construction in progress of land and Tower 3, office tower and parking units for which ZTC has been granted permit to sell by the Housing and Land Use Regulatory Board of the Philippines.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building (see Note 27.4). The construction was started in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 were completed in 2008 and 2012, respectively; while the construction of Tower 3 has not yet started, it has incurred expenses for the planning phase as of December 31, 2020. The completion of the construction of Tower 3 is still indefinite due to the effects of COVID-19 pandemic on the Group's business operations (see Note 1.3).

## **10. LEASES**

The Group is a lessee under non-cancellable operating leases covering certain business spaces and satellite offices. The lease for these offices has a term of two to five years. All leases have renewal options. Generally, termination of lease contracts shall be communicated to the lessee by the lessor prior

to the termination or expiration of the lease contract. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the statements of financial position as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets and lease liabilities as separate line items in the consolidated statements of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublease the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Group is prohibited from selling or pledging the underlying leased assets as security. The Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

Refundable security deposits represent the lease deposits made for the lease of the Group's business spaces. Related security deposits for these leases amounted to P19.2 million as of December 31, 2020 and are presented as part of Other Current Assets and Other Non-current Assets account in the consolidated statements of financial position (see Note 13). Refundable security deposits which are expected to be settled beyond one year after the end of the reporting period are classified as non-current assets.

### ***10.1 Right-of-use Assets***

The carrying amounts of the Group's right-of-use assets, which pertain to office spaces, as of March 31, 2021 and December 31, 2020, including the movements during the reporting period are shown below.

	<u>2021</u>		<u>2020</u>
Balance at beginning of year	<b>P 9,549,297</b>	P	14,762,222
Additions			-
Amortization	<b>(1,022,395)</b>	(	5,212,925)
Balance at end of year	<b><u>P 8,526,902</u></b>	<u>P</u>	<u>9,549,297</u>

The total amortization on the right-of-use assets is presented as part of Depreciation and amortization under Cost of Services in the consolidated statements of income (see Notes 17.2 and 18).

### ***10.2 Lease Liabilities***

Lease liabilities are presented in the consolidated statements of financial position as of March 31, 2021 and December 31, 2020 as follows:

	<u>2021</u>		<u>2020</u>
Current	<b>P 3,632,757</b>	P	4,150,895
Non-current	<b><u>6,370,471</u></b>	<u>P</u>	<u>6,370,471</u>
	<b><u>P 10,003,228</u></b>	<u>P</u>	<u>10,521,366</u>

The movements in the lease liabilities recognized in the consolidated statements of financial position as of March 31, 2021 and December 31, 2020 are as follows:

	<u>2021</u>		<u>2020</u>
Balance at beginning of year	<b>P 10,521,366</b>	P	15,363,477
Additional lease liabilities			-
Interest accretion			823,728
Repayments of lease liabilities	<b>(518,138)</b>	(	5,665,839)
	<b><u>P 10,003,228</u></b>	<u>P</u>	<u>10,521,366</u>



The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognized in the consolidated statements of financial position.

	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with termination options
Office space	8	1 year and 4 months to 3 years and 11 months	2 years and 6 months	6	-

As of December 31, 2020, the Group has no commitments for leases entered into which had not commenced.

The undiscounted maturity analysis of lease liabilities at December 31, 2020 is as follows:

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Total</u>
<b>December 31, 2020</b>						
Lease payments	P 4,727,271	P 3,795,991	P 2,255,438	P 767,960	P -	P 11,546,660
Finance charges	( 576,376)	( 304,380)	( 125,161)	( 19,377)	-	( 1,025,294)
Net present values	<b>P 4,150,895</b>	<b>P 3,491,611</b>	<b>P 2,130,277</b>	<b>P 748,583</b>	<b>P -</b>	<b>P 10,521,366</b>

### ***10.3 Lease Payments Not Recognized as Liabilities***

The Group has elected not to recognize lease liabilities for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The amount of expense relating to short-term leases for the period ended March 31, 2021 and 2020 is allocated in the consolidated statements of income as follows:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cost of services	17.2	P 2,520,984	P1,270,128
Cost of rental	17.3	<b>689,982</b>	36,000
General and administrative expenses		<b>351,038</b>	931,089
	18	<b>P 3,562,004</b>	<u>P 2,237,217</u>

### ***10.4 Additional Profit or Loss and Cash Flow Information***

The total cash outflow in respect of leases, including interest payment, amounted to P5.7 million for annual year 2020. Interest expense in relation to lease liabilities amounted to P0.8 million for annual year 2020, and is presented as part of Finance costs under Other Income (Charges) account in the consolidated statements of income (see Note 20.1).

## 11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property and equipment at the beginning and end of March 31, 2021 and December 31, 2020 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, 2021											
Cost	P 1,277,854,682	P 369,849,173	P 210,461,950	P 235,104,568	P 226,573,123	P 15,798,523	P 85,923,849	P 111,127,722	P 92,506,004	P 32,665,980	P 2,657,865,574
Accumulated depreciation and amortization	-	( 150,951,973)	( 161,371,107)	( 218,556,151)	( 145,093,263)	( 9,767,869)	( 75,819,581)	( 101,013,674)	( 75,216,879)	-	( 937,790,496 )
Accumulated impairment losses	-	( 35,000,000)	-	-	-	-	-	-	-	( 14,346,250)	( 49,346, 250)
Net carrying amount	<b><u>P 1,277,854,682</u></b>	<b><u>P 183,897,200</u></b>	<b><u>P 49,090,843</u></b>	<b><u>P 16,548,417</u></b>	<b><u>P 81,479,860</u></b>	<b><u>P 6,030,654</u></b>	<b><u>P 10,104,268</u></b>	<b><u>P 10,114,048</u></b>	<b><u>P 17,289,125</u></b>	<b><u>P 18,319,730</u></b>	<b><u>P 1,670,728,827</u></b>
December 31, 2020											
Cost	P 1,277,854,682	P 344,972,122	P 192,632,526	P 269,746,237	P 247,724,563	P 14,883,239	P 86,025,607	P 113,491,155	P 92,941,174	P 28,048,367	P 2,668,319,672
Accumulated depreciation and amortization	-	( 125,668,565)	( 147,908,769)	( 239,637,882)	( 162,714,267)	( 12,450,828)	( 75,512,460)	( 102,698,058)	( 72,377,007)	-	( 938,967,836)
Accumulated impairment losses	-	( 35,000,000)	-	-	-	-	-	-	-	( 14,346,250)	( 49,346,250)
Net carrying amount	<b><u>P 1,277,854,682</u></b>	<b><u>P 184,303,557</u></b>	<b><u>P 44,723,757</u></b>	<b><u>P 30,108,355</u></b>	<b><u>P 85,010,296</u></b>	<b><u>P 2,432,411</u></b>	<b><u>P 10,513,147</u></b>	<b><u>P 10,793,097</u></b>	<b><u>P 20,564,167</u></b>	<b><u>P 13,702,117</u></b>	<b><u>P 1,680,005,586</u></b>

Construction in progress pertains to accumulated costs incurred on building improvements being constructed in various properties of the Group. In 2020 and 2019, no borrowing costs were capitalized.

In 2020, the Group sold certain property and equipment with carrying amounts of P2.1 million. Aside from these assets, the Group also disposed of certain fully-depreciated property and equipment with original cost of P3.5 million in 2020. The Group recognized gain on disposal of these property and equipment totaling P1.6 million in 2020, which are presented as part of Other Gains – net account in the consolidated statements of income (see Note 20.3).

The cost of fully depreciated property and equipment still used in operations amounted to P460.5 million as of December 31, 2020.

The amount of depreciation and amortization computed on property and equipment is presented as part of the following accounts:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cost of services	17.2	<b>P 13,550,149</b>	P 12,162,169
Cost of rentals	17.3	<b>3,862,865</b>	4,313,107
General and administrative expenses		<u><b>3,161,456</b></u>	<u>3,748,67</u>
Selling and distribution costs		<u><b>596,243</b></u>	<u>668,275</u>
	18	<b><u>P 21,170,713</u></b>	<b><u>P 20,892,228</u></b>

As of March 31, 2021 and December 31, 2020, none of the Group's property and equipment were held as collateral for loans. Further, no impairment losses were recognized in 2020 as the management believes that the carrying amount of property and equipment is recoverable in full.

There were no restrictions on titles and items of property and equipment as of December 31, 2020.

## 12. 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 amounting to P63 million, P61.9 million in 2021 and 2020, respectively, and are presented as Rentals under Revenues account in the consolidated statements of income. The Group also incurred 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 17.3).

The fair values of the Group's investment properties as at December 31, 2020 were determined based on appraisal report dated October 30, 2020. Management obtains annual appraisal reports on its investment properties from independent appraisers (see Note 30.4).

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position are summarized as follows:

	<u>Land and Improvements</u>	<u>Building and Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
<b>2021:</b>				
Balance at beginning of year	P 3,158,909,711	P 796,712,400	P 79,397,441	P 4,035,019,552
Additions		505,051	3,939,951	4,445,002
Fair value gains (losses) on investment property – net (see Note 19)		-	-	-
Reclassification	-	441,964	( 441,964)	-
Balance at end of year	<u>P 3,158,909,711</u>	<u>P 797,659,415</u>	<u>P 82,895,428</u>	<u>P 4,039,464,554</u>
<b>2020:</b>				
Balance at beginning of year	P 2,867,432,506	P 821,425,580	P 51,264,577	P 3,740,122,663
Additions	9,495,612	412,946	19,252,162	29,160,720
Fair value gains (losses) on investment property – net (see Note 19)	293,944,087	( 28,207,918)	-	265,736,169
Reclassification	-	3,529,792	( 3,529,792)	-
Balance at end of year	<u>P 3,170,872,205</u>	<u>P 797,160,400</u>	<u>P 66,986,947</u>	<u>P 4,035,019,552</u>

In 2020, the Group incurred expenses amounting to P9.5 million, which pertains to land preparation for the planned construction of its building and is presented as part of Investment Property in the consolidated statements of financial position. There were no borrowing costs that were capitalized in 2020. As of March 31, 2021 and December 31, 2020, none of the Group's investment properties were held as collateral.

### 13. OTHER ASSETS

The composition of these accounts as of December 31 is shown below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>Current:</b>			
Deferred costs	13.4	P 70,320,802	P 114,888,306
Creditable withholding taxes		115,610,810	111,424,923
Input VAT – net		48,874,829	59,372,844
Prepayments	13.4	9,229,559	25,770,054
Deferred input VAT – net		17,599,599	19,819,019
Refundable deposits	10	11,347,659	16,144,935
Others	13.4	11,369,004	4,039,123
		<u>284,352,262</u>	<u>351,459,204</u>
<b>Non-current:</b>			
Intangible assets	13.1	12,964,946	13,086,188
Deposits to suppliers	13.4	3,347,774	3,347,774
Refundable deposits	10	2,246,453	3,063,328
Cash bond	13.2	680,834	680,834
Others	13.4	6,794,504	6,293,668
		<u>26,034,511</u>	<u>26,471,792</u>
		<u>P 310,386,773</u>	<u>P 377,930,996</u>

### **13.1 Intangible Assets**

The gross carrying amounts and accumulated amortization of intangible assets as of December 31 are shown below.

	<u>2021</u>		<u>2020</u>
Cost	<b>P 33,527,829</b>	P	33,527,829
Accumulated amortization	<b>(20,441,641)</b>	(	20,441,641)
Net carrying amount	<b><u>P 13,086,188</u></b>	P	<u>13,086,188</u>

Intangible asset is subject to annual impairment testing and whenever there is an indication of impairment. In 2020, certain non-proprietary club shares were assessed to be impaired as determined by the management; hence, adequate amount of allowance for impairment has been recognized. The impairment loss is presented as Impairment loss on intangible assets under General and Administrative Expenses account in the 2020 consolidated statement of income (see Note 18).

In 2019, the Group reclassified certain Deposits to suppliers to System software amounting to P2.3 million. There was no similar transaction in 2020.

Amortization charges amounting to P0.1 million in 2020, are presented as part of Depreciation and amortization under General and Administrative Expenses account in the consolidated statements of income (see Note 18).

No intangible asset has been pledged as security for any liabilities. There were no other contractual commitments entered into in 2021 and 2020 related particularly for intangible asset.

### **13.2 Cash Bond**

Cash bond represents deposits made with the Bureau of Customs for taxes and duties related to its importations. As of December 31, 2020, the total amount is currently demandable; however, the Group does not expect to refund the cash bond within 12 months from the end of the reporting period.

### **13.3 Others**

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.

Deposits to suppliers represent refundable amount paid by the Group to its suppliers for the distribution utilities provided to the Group.

Others include deferred installation costs which pertain to the costs paid by the Group to its contractors for the installation of modular houses. Upon completion of installation, the cost is transferred to cost of sales.

#### 14. INTEREST-BEARING LOANS

The Group's short-term interest-bearing loans amounting to P68.0 million (\$1.3 million) as of December 31, 2019 (nil as of December 31, 2020), pertains to loan of BRL which are denominated in USD and fully settled on 2020. Hence, there were no outstanding bank loans and interest as of December 31, 2020.

The movements on this account are as follows:

	2020	
	USD	PHP
Balance at beginning of year	\$ 1,339,202	P 67,956,468
Repayment of loans	( 1,339,202)	( 64,329,907)
Roll-over of interest on loans		-
Translation adjustment	-	( 3,626,561)
Balance at end of year	\$ -	P -

The loans of BRL are secured by a portion of the cash surrender value of investment in life insurance as of December 31, 2020 (see Note 6.4). The loans have maturities ranging from 30 days to one year, and bear interest at prevailing annual average market rates ranging from 2.07% to 3.90% in 2020.

Interest expense arising from these loans is shown as part of Finance costs under Other Income (Charges) account in the consolidated statements of income (see Note 20.1). The Group has no significant loan covenants as of December 31, 2020.

#### 15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2021	2020
Trade payables	25.1	<b>P 287,943,919</b>	P 234,351,992
Accrued expenses	14	<b>40,762,094</b>	38,614,841
Refundable deposits	25.2	<b>35,546,171</b>	33,946,295
Unearned rental		<b>20,002,170</b>	20,896,173
Non-trade payables		<b>25,221,975</b>	17,349,457
Deferred output VAT		<b>14,068,596</b>	14,940,738
Advances from customers		<b>6,185,965</b>	5,853,920
Rentals payable		<b>4,278,523</b>	4,278,523
Accrued dealers' incentives		<b>3,742,498</b>	4,266,497
Output VAT		<b>6,977,733</b>	4,178,219
Withholding taxes payable		<b>2,900,031</b>	3,717,138
Reserve for warranty costs		<b>883,141</b>	1,152,611
Retention payable		<b>263,620</b>	307,043
Other payables	9.1	<b>7,504,960</b>	13,342,093
		<b><u>P 456,281,396</u></b>	<b><u>P 397,195,540</u></b>

Trade payables mainly represent obligations to various suppliers for the acquisition of goods, materials and supplies necessary for the Group's operations and productions.

Accrued expenses include amounts charged for rentals, outside services, salaries and other incidental operating expenses of the Group which are expected to be settled within the next reporting period.

The Group receives refundable deposits from various lessees. The long-term portion of the refundable deposits from various tenants is shown as a separate line item in the consolidated statements of financial position (see Note 16). Refundable deposits are remeasured at amortized cost using the effective interest rates ranging from 4.58% to 6.25% at the inception of the lease term. No gain or loss on discounting was recognized in 2020. On the other hand, interest expense recognized from the amortization of refundable deposits amounting to P0.7 million in 2020 are presented as part of Finance costs under Other Income (Charges) account in the consolidated statements of income (see Note 20.1).

Unearned rentals represent advance payments received from lessees.

Nontrade payables are the obligations arising from transactions that are not within the ordinary course of business which includes lessees' deposits for electricity, communication costs, gasoline expenses, professional fees and others.

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

Accrued dealers' incentives pertain to rebates awarded to dealers once certain level of sales were achieved during a particular period. Advances from customers pertain to the integration services in progress and customer deposit on sale of goods paid in advance to the Group.

A provision is recognized for expected warranty claims on products sold during the year based on the Group's past experience on the level of repairs and returns. There was no additional provision in 2020.

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. There was no write-off of trade and other payables in 2020.

Management considers the carrying amounts of trade and other payables recognized in the statements of financial position to be reasonable approximation of their fair values.

## **16. REFUNDABLE DEPOSITS**

SMC, Kita and ZTC have long-term refundable deposits from various tenants totaling P29 million and P28.9 million as at March 31, 2021 and December 31, 2020, respectively. 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. No gain or loss on discounting was recognized in 2020.

In 2019, Kita returned to its lessees certain security deposits amounting to P5.2 million. There was no similar transaction occurred in 2020.

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

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

### 17.1 Cost of Sales

The details of this account are shown below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Merchandise inventories			
at beginning of year	8	P 217,962,817	P 180,270,311
Net purchases of merchandise			
inventories during the year	18, 25.1	<u>141,000,592</u>	<u>27,784,742</u>
Goods available for sale		<u>358,963,409</u>	208,055,053
Merchandise inventories			
at end of year	8	( 239,555,794)	( 160,844,877)
Net reversal of allowance for			
inventory obsolescence	8	<u>( - )</u>	<u>( - )</u>
	18	<u>P 119,407,615</u>	<u>P 47,210,176</u>

### 17.2 Cost of Services

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

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Service fees	26.3	P 17,928,417	P 15,048,879
Materials, supplies and			
other consumables		20,068,251	22,221,541
Subcontracting services		18,066,380	16,654,573
Depreciation and			
amortization	10.1, 11	14,572,544	13,722,621
Salaries and employee			
benefits	21.1	12,713,488	16,544,942
Outside services		5,368,024	9,234,039
Transportation and travel		4,966,631	4,502,482
Communication, light			
and water		3,801,970	4,718,926
Repairs and maintenance		1,387,570	2,435,409
Rentals	10.3, 27.2	2,520,984	1,270,128
Food and beverage		1,754,572	2,552,135
Insurance		708,763	766,367
Taxes and Licenses		282,291	282,291
Integration			41,899
Others		<u>2,544,351</u>	<u>1,624,706</u>
	18	<u>P 106,684,236</u>	<u>P 111,620,938</u>

### 17.3 Cost of Rentals

The details of this account are as follows:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Taxes and licenses	12	P 23,524,011	P 23,742,582
Depreciation and			
amortization	11	3,862,865	4,313,107
Outside services		2,101,493	2,243,646
Rentals	10.3,	689,982	36,000
Repairs and maintenance	12	768,627	856,802
Salaries and employee			
benefits	21.1	217,965	227,973
Communication usage			
service area		1,799,747	1,916,085
Others	12	<u>2,262,567</u>	<u>2,186,646</u>
	18	<u>P 35,227,257</u>	<u>P 35,522,841</u>



Others primarily consists of labor costs, materials, supplies and transportation and travel expenses.

#### 17.4 Cost of Real Estate Sales

This account pertains to the Group's cost of condominium units and parking lots (see Note 18). No sale of real estate inventories occurred in 2021 and 2020.

### 18. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Net purchases of merchandise inventories	17.1, 25.1	<b>P 141,000,592</b>	P 27,784,742
Salaries and employee benefits	21.1, 21.2, 25.6	<b>52,232,777</b>	63,850,244
Service fees	26.3	<b>17,928,417</b>	15,048,879
Depreciation and amortization	10.1, 11, 13.1	<b>22,193,107</b>	22,452,679
Materials, supplies and other consumables		<b>24,704,691</b>	25,791,169
Outside services		<b>13,443,494</b>	19,232,628
Subcontracting services		<b>18,974,506</b>	18,458,865
Taxes and licenses		<b>41,680,827</b>	39,170,105
Utilities and communication		<b>14,766,278</b>	16,823,907
Transportation and travel		<b>3,188,643</b>	3,925,841
Repairs and maintenance		<b>4,979,575</b>	6,986,055
Rentals	10.3, 27.2	<b>3,562,004</b>	2,237,213
Impairment losses on trade and other receivables – net	6.7		
Food and beverage		<b>1,754,572</b>	2,552,135
Impairment losses on advances to related parties	25.4		
Advertising and promotions		<b>613,542</b>	1,448,101
Representation and entertainment		<b>1,204,815</b>	2,394,108
Installation cost		-	92,177
Excess of actual over standard input VAT		<b>63,429</b>	286
Insurance		<b>2,759,368</b>	3,661,870
Integration			41,899
Warranty claims		<b>27,406</b>	1,491,565
Changes in merchandise, finished goods and work-in-process inventories	17.1	<b>( 21,592,977 )</b>	19,425,434
Others		<b>9,602,629</b>	8,488,174
		<b>P 353,087,695</b>	P 301,358,076

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

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cost of sales	17.1	<b>P 119,407,615</b>	P 47,210,176
Cost of services	17.2	<b>106,684,236</b>	111,620,939
Cost of rentals	17.3	<b>35,227,257</b>	35,522,841
Cost of real estate sales	17.4	-	-
General and administrative expenses		<b>80,624,675</b>	88,911,702
Selling and distribution costs		<b>11,143,912</b>	18,092,418
		<b>P 353,087,695</b>	P 301,358,076

## 19. OTHER OPERATING INCOME (EXPENSE)

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Income from utilities charged to tenants		<b>(P 5,425,805)</b>	(P 8,042,821)
Common usage service area	25.2	<b>( 3,127,909)</b>	( 2,556,964)
Revenue share from embedded third party application		-	( 1,403,487)
Others		<b>( 1,750,084)</b>	( 1,488,979)
		<b><u>(P 10,303,798)</u></b>	<b><u>(P 13,492,251)</u></b>

## 20. OTHER INCOME (CHARGES)

Other Income (Charges) include Finance Costs account, Finance Income account and Other Gains – net account as presented in the consolidated statements of income.

### *20.1 Finance Costs*

This account consists of the following:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Foreign currency exchange losses		<b>P 522,771</b>	P 47,195
Interest expense on interest-bearing loans	14	-	636,229
Interest expense on lease liabilities	10.4	<b>120,180</b>	214,899
Others		<b><u>99,722</u></b>	<u>60,196</u>
		<b><u>P 742,673</u></b>	<u>P 958,519</u>

### *20.2 Finance Income*

This account consists of the following:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Interest income from cash and cash equivalents	5.1	<b>P 1,637,401</b>	P 5,038,313
Interest income from real estate sale	6.1	<b>269,476</b>	337,022
Foreign currency exchange gains		<b>3,733,273</b>	1,457,664
Others		<u>                    </u>	<u>654,430</u>
		<b><u>P 5,640,150</u></b>	<u>P 7,487,429</u>

### 20.3 Other Gains – net

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Gain on sale of property and equipment	11	<b>P 132,143</b>	P 6,349
Gain (Loss) on sale of scrap	9.1	<b>603</b>	-
Others		<u><b>654,462</b></u>	<u>524,894</u>
		<b>P 787,208</b>	P 531,243

## 21. EMPLOYEE BENEFITS

### 21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Note 25.6).

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Short-term benefits		<b>P 52,232,777</b>	P 63,850,244
Post-employment benefits	21.2	<u>-</u>	<u>-</u>
	18	<u><b>P 52,232,777</b></u>	<u>P 63,850,244</u>

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

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
General and administrative expenses		<b>P 32,863,019</b>	P 37,469,304
Cost of services	17.2	<b>12,713,488</b>	16,544,942
Selling and distribution costs		<b>6,438,305</b>	9,608,025
Cost of rentals	17.3	<u><b>217,965</b></u>	<u>227,973</u>
	18	<u><b>P 52,232,777</b></u>	<u>P 63,850,244</u>

### 21.2 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 covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2020..

The amounts of retirement benefit asset recognized in the consolidated statements of financial position as of March 31, 2021 and December 31, 2020 are determined as follows:

	<u>2020</u>
Fair value of plan assets	P 214,321,329
Present value of obligation	( <u>73,939,796</u> )
	<u>P 138,381,533</u>

On the other hand, the retirement benefit obligation recognized by certain subsidiaries, which does not have an established post-employment benefit plan, amounted to P27.6 million as of December 31, 2020.

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

	<u>2020</u>
Balance at beginning of year	P203,053,778
Interest income	10,350,318
Return on plan assets (excluding amounts included in net interest)	3,964,497
Contributions	4,017,015
Benefits paid	( <u>7,064,279</u> )
Balance at end of year	<u>P214,321,329</u>

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

		<u>2020</u>
Balance at beginning of year	P	115,005,810
Current service costs		16,625,682
Interest costs		5,826,853
Past service costs	(	3,906,039)
Benefits paid	(	7,064,279)
Benefits paid from book reserve	(	1,303,750)
Remeasurements –		
Actuarial losses (gains) arising from:		
Experience adjustments	(	11,929,903)
Changes in financial assumptions	(	9,322,204)
Changes in demographic assumptions	(	<u>396,676</u> )
Balance at end of year	<u>P</u>	<u>103,535,494</u>

The significant actuarial gains or losses in 2020 arising from the financial assumptions pertains to the effects of differences between the discount rates and salary projection rates used while the gains arising from experience adjustments pertains to the effects of differences between the previous

actuarial assumptions and what has actually occurred, including the changes in those actuarial assumptions during the applicable reporting periods.

The plan assets consist of the following as of December 31, 2020 (see Note 25.7):

		<u>2020</u>
Debt securities:		
Philippines government bonds	P	212,616,788
UITF		1,908,969
Mutual funds		-
Others		<u>( 204,428)</u>
	<b>P</b>	<b><u>214,321,329</u></b>

The fair values of the debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). UITF and mutual funds 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 P14.3 million in 2020.

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 of post-employment benefit expense recognized in the consolidated statements of income and consolidated statements of comprehensive income in respect of the post-employment defined benefit plan are presented below.

	<u>Notes</u>	<u>2020</u>
<i>Reported in consolidated statements of income:</i>		
Current service cost	21.1	P 16,625,682
Past service cost	21.1	( 3,906,039)
Net interest income	20.3	( <u>4,523,465</u> )
		<b><u>P 8,196,178</u></b>
<i>Reported in consolidated statements of comprehensive income (loss):</i>		
Actuarial gains (losses) from:		
Changes in experience adjustments		P 11,929,903
Changes in financial assumptions		9,322,204
Changes in demographic assumption		396,676
Return on plan assets (excluding amounts included in net interest)		<u>3,964,497</u>
	23.3	<b><u>P 25,613,280</u></b>

Current service cost and past service cost are presented as part of Salaries and employee benefit account under the General and Administrative Expenses account in the consolidated statements of income (see Note 18).

The net interest income is included in Other Gains – net account in the consolidated statements of income (see Note 20.3). 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.

For determination of the post-employment benefit obligation, the following actuarial assumptions were used:

	<u>2020</u>
Discount rates	2.84% - 3.97%
Salary increase rate	5.00%

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 11.5 to 26.0 years for males and 17.0 to 26.0 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 defined benefit obligation 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 UITF.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation 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 defined benefit obligation 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 in the succeeding pages.

(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, 2020:

	<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>December 31, 2020</u>			
Discount rate	+/- 0.5%	(P 5,897,199)	P 6,683,408
Salary increase rate	+/- 1.0%	14,115,762	( 9,675,786)

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 defined benefit obligation 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 defined benefit obligation 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 defined benefit obligation 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, 2020 and 2019 is generally concentrated in government debt securities, although the Group also invests in UITF and mutual funds.

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently overfunded by P138.4 million based on the latest actuarial valuation. On the other hand, the Group is yet to determine how much and when to fund its retirement benefit obligation as of December 31, 2020. The Group does not expect to make any contribution to the plan during the next reporting period.

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

	<u>2020</u>
Within one year	P 12,239,686
More than one year to 5 years	21,420,397
More than 5 years to 10 years	37,046,814
More than 10 years to 15 years	82,634,194
More than 15 years to 20 years	96,249,336
More than 20 years	<u>931,037,450</u>
	<u>P1,180,627,877</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 19 years.

## 22. TAXES

### ***22.1 Registration with Economic Zone Authorities***

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

Kita is registered with the CDC under RA No. 7227, *The Bases Conversion and Development Act of 1992*, as amended under R.A. No. 9400, *An Act Amending RA 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 (CFZ), 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 these taxes, Kita is subject to a 5% preferential tax rate on its registered activities until April 12, 2019. However, the 30% regular corporate income tax (RCIT) rate is applied to income which comes from sources other than Kita's registered activities. Kita is subject to RCIT or minimum corporate income tax (MCIT), whichever is higher, for all of its transactions starting April 13, 2019.

#### *(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 2020, however, 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.

### ***22.2 Current and Deferred Taxes***

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



	<u>2021</u>	<u>2020</u>
<i>Reported in consolidated statements of income:</i>		
Current tax expense:		
RCIT at 30%	<b>P 6,529,384</b>	P 5,895,445
Final tax at 20% and 15%	<b>1,620,124</b>	6,754,306
MCIT at 2%	<u><b>296,189</b></u>	<u>703,036</u>
	<b>8,445,697</b>	13,352,787
Deferred tax expense relating to origination and reversal of temporary differences	<u><b>137,084</b></u>	<u>( 2,824,525)</u>
	<b>P 8,582,781</b>	<b>P 10,528,262</b>

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

	<u>2020</u>
Deferred tax assets:	
Allowance for impairment on trade and other receivables	<b>P 26,721,171</b>
Allowance for inventory obsolescence	20,153,254
Retirement benefit obligation	5,334,139
Unrealized foreign currency loss NOLCO	5,210,264
Fair value loss on investment property	4,931,391
PFRS 16 adoption	4,441,947
Accrued expenses	4,431,625
MCIT	1,169,453
Provision for warranty claims	612,422
Deferred rental income	357,980
	<u>-</u>
	<u>73,363,646</u>
Deferred tax liabilities:	
Equity investments in FVOCI	( 1,500,000)
Accumulated depreciation on investment property	( 1,025,594)
	<u>( 2,525,594)</u>
Deferred tax assets – net	<b>P 70,838,052</b>

The net deferred tax liabilities of the Parent Company and other subsidiaries as of December 31 relate to the following:

	<u>2020</u>
Deferred tax assets:	
Allowance for impairment on trade and other receivables	<b>P 10,492,807</b>
Accumulated amortization on right-of-use asset	7,980,275
Unearned rent income	5,813,209
Impairment losses on property and equipment	4,303,875

NOLCO	2,622,618
Allowance for inventory obsolescence	1,162,023
Loss on investment in subsidiaries	838,709
Deferred rent income	453,146
Unamortized past service costs	293,829
MCIT	266,516
Unrealized foreign currency loss	165
Deferred tax assets - net	<u>P 34,227,172</u>
Deferred tax liabilities:	
Fair value gains on investment property – net	( 905,398,891)
Retirement benefit asset	( 38,408,855)
Accumulated depreciation on investment property	( 16,711,045)
Excess of FV over cost of property	( 14,653,835)
Amortization of lease liabilities	( 7,408,169)
Accrued rent income	( 5,793,811)
Unrealized foreign currency gains	( 5,155,064)
Changes in fair value of financial assets at FVOCI	( 1,710,000)
	<u>( 995,239,670)</u>
Deferred tax liabilities – net	<u>(P 961,012,498)</u>

The deferred tax expense in 2020 amounting to P7.1 million in the consolidated statements of comprehensive income pertains to the tax effect of the changes in remeasurements of post-employment defined benefit plan (see Note 23.3).

The details of the Group's NOLCO are as follows:

<u>Year Incurred</u>	<u>Amount</u>	<u>Applied Amount</u>	<u>Expired Amount</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2020	P 166,054,076	P -	P -	P 166,054,076	2025
2019	287,916,072	( 1,164,001)	-	286,752,071	2022
2018	226,621,411	( 5,597,571)	-	221,023,840	2021
2017	<u>22,095,114</u>	<u>( 1,197,516)</u>	<u>( 20,897,598)</u>		
	<b><u>P 702,686,673</u></b>	<b><u>(P 7,959,088)</u></b>	<b><u>(P 20,897,598)</u></b>	<b><u>P 673,829,987</u></b>	

NOLCO incurred in 2020 amounting to P166.1 million can be claimed as a deduction from the gross income until 2025 in accordance with RA No. 11494, *Bayaniban to Recover as One Act*. NOLCO incurred in 2019 and 2018 can be claimed as a deduction from the gross income until 2022 and 2021, respectively.

The Group is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. The details of the Group's MCIT are as follows:

<u>Year Incurred</u>	<u>Amount</u>	<u>Applied Amount</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2020	P 1,360,982*	P -	P 1,360,982	2023
2019	1,524,840	-	1,524,840	2022
2018	4,147,314	( 182,339)	3,964,975	2021
2017	<u>78,115</u>	<u>( 78,115)</u>		

**P 7,111,251**      **(P 260,454)**      **P 6,850,797**

\* *Determined based on CREATE Act (see Note 32)*

The Group did not recognize the deferred tax assets on NOLCO, MCIT and other deductible temporary differences of certain subsidiaries as management has assessed that those subsidiaries may not be able to realize their related tax benefits within the prescribed avilment period. 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.

	<u>2020</u>	
	<u>Amount</u>	<u>Tax Effect</u>
FVOCI (AFS financial assets in 2018)	P 829,222,559	P 248,766,768
NOLCO	668,708,399	200,612,518
Unrealized foreign currency gains – net	22,218,627	6,665,588
Allowance for impairment of trade receivables	16,160,480	4,848,144
MCIT	6,428,916	6,428,916
Retirement benefit obligation	3,671,863	1,101,559
Unamortized past service cost	2,421,539	726,462
Reserve for commission	1,067,607	320,282
Allowance for inventory obsolescence	1,039,657	311,897
Allowance for impairment of land and land development cost	644,800	193,440
Allowance for impairment of intangible assets	272,127	81,638
	<u>P 1,551,856,574</u>	<u>P 470,057,212</u>

In 2020, the Group claimed itemized deductions in computing its income tax due, except for SBC and ZTC, which opted to claim OSD in those years.

## 23. EQUITY

### ***23.1 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 offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares consist of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of December 31, 2020, the Parent Company has issued shares of 2,030,975,000 (with P1 par value), of which, 386,912,704 shares are held by the public in 2020. There are 4,230 holders of the listed shares which closed at P1.11 per share on December 31, 2020.

### ***23.2 Retained Earnings***

There was no dividend declaration in 2020. Retained earnings is restricted in the amount of P115.6 million as of December 31, 2020 and equivalent to the cost of 209,433,000 shares held in treasury.

### ***23.3 Revaluation Reserves***

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

<u>Notes</u>	<u>2021</u>	<u>2020</u>
Balance at beginning of year	<b>10,921,262</b>	18,545,180
Currency exchange differences on translating financial statements of foreign operations	<u>4,038,592</u>	<u>2,646,792</u>
Balance at end of year	<b>P 14,959,854</b>	<u>P 21,191,972</u>

### ***23.4 Subsidiary with Material Non-controlling Interest***

Noncontrolling interests (NCI) pertain to the 25.0%, 27.0%, 50.0% and 50.0% equity ownership of minority stockholders in Skyworld, Interstar, Starworld and LIIP, respectively. The selected financial information (before inter-company eliminations) of Starworld and LIIP, which are considered the material NCI are shown below.

	<u>Starworld</u> <u>2020</u>	<u>LIIP</u> <u>2020</u>
Current assets	P 815,488,350	P 130,520
Non-current assets	<u>1,286,244</u>	<u>-</u>
Total assets	<u>P 816,774,594</u>	<u>P 130,520</u>
Current liabilities	P 69,671,352	P 8,029,528
Non-current liabilities	<u>340,102</u>	<u>-</u>
Total liabilities	<u>P 70,011,454</u>	<u>P 8,029,528</u>
Equity (capital deficiency) attributable to owners of the parent	<u>P 373,381,570</u>	<u>(P 3,949,504)</u>
NCI	<u>P 373,381,570</u>	<u>(P 3,949,504)</u>
Revenue	<u>P 20,253,711</u>	<u>P -</u>
Profit (loss) for the year attributable to owners of the parent	P 3,184,589	(P 271,271)
Profit (loss) for the year attributable to NCI	<u>3,184,589</u>	<u>( 271,271)</u>
Profit (loss) for the year	<u>6,369,178</u>	<u>( 542,542)</u>
Other comprehensive loss for the year (all attributable to owners of the parent)	<u>619,454</u>	
Total comprehensive income (loss) for the year attributable to owners of the parent	3,804,043	( 271,271)
Total comprehensive income (loss) for the year attributable to NCI	<u>3,184,589</u>	<u>( 271,271)</u>
Total comprehensive income (loss) for the year	<u>P 6,988,632</u>	<u>(P 542,542)</u>
Net cash used in operating activities	( P 5,263,988)	(P 123,281))
Net cash from (used in) investing activities	( 678,495,423)	<u>51,520</u>
Net cash from financing activities	<u>-</u>	<u>-</u>

	( 683,759,411)	( 71,761)
Effect of exchange rate on cash and cash equivalent	( 4,688,184)	-
78 Net cash inflow (outflow)	<u>P 688,447,595</u>	<u>(P 71,761)</u>

The corporate information of Starworld and LIIP, as well as the Parent Company's stockholding thereto, is provided in Note 1.

Management determined that the difference between the respective equity ownership of minority stockholders over the equity of the aforementioned subsidiaries and the amount of NCI recognized in the consolidated statements of financial position is not material to the consolidated financial statements.

There were no dividends paid to the NCI for the years ended December 31, 2020.

## 24. EARNINGS PER SHARE

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

	<u>2021</u>	<u>2020</u>
Net profit for the year attributable to the Parent Company's stockholders	<b><u>P 16,054,789</u></b>	<u>(P 2,786,478)</u>
Divided by weighted average shares outstanding:		
Number of shares issued	<b>2,030,975,000</b>	2,030,975,000
Treasury shares	<u>( 209,433,000)</u>	<u>( 209,433,000)</u>
	<b><u>1,821,542,000</u></b>	<u>1,821,542,000</u>
Earnings per share – basic and diluted	<b><u>P 0.009</u></b>	<u>(P 0.002)</u>

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2021 and December 31, 2020, hence, diluted earnings per share is equal to the basic earnings per share.

## 25. 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 as described below and in the succeeding pages.

The summary of the Group's significant transactions in 2020 with its related parties and the outstanding balances as of December 31, 2020 are presented below.

<u>Related Party Category</u>	<u>Notes</u>	<u>Amounts of Transaction</u>		<u>Outstanding</u>
		<u>2020</u>		<u>Receivable (Payable)</u>
<u>2020</u>				
<b>Related Parties Under Common Ownership:</b>				
Purchase of mobile phones	25.1	P	155,375,026	(P 56,803,352)
Advances to suppliers	25.1		195,702,637	70,695,418
Commissions	25.5		60,020,094	129,631,358
Cash advances granted (paid)	25.4		12,524,583	21,572,451
Lease of real property	25.2		5,603,819	161,676
Rendering of services	25.2, 25.9		3,350,449	659,536
Sale of goods	25.8		3,331,175	1,129,704
Purchase of spare parts	25.1		2,406,636	( 872,575)
Granting (collection) of business loans	25.3	(	1,500,000)	9,500,000
Interest income	25.3		880,000	-
Purchase of supplies and services	25.1		610,210	( 34,383)
Refundable deposits	25.2		193,250	( 717,500)
Cash advances obtained	25.4		-	(1,881,570)
<b>Others:</b>				
Key management personnel compensation	25.6		46,204,296	-

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, certain receivables were found to be impaired using the provision matrix; hence, adequate amount of allowance for impairment have been recognized as of December 31, 2020.

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

In 2020, My Solid purchased mobile phones, tablets and accessories at prevailing market prices from Solid Trading Limited (STL), a related party under common ownership which is based in Hong Kong, amounting to P157.8 million, and recorded as part of Net purchases under Cost of Sales in the consolidated statements of income (see Note 17.1). The outstanding payable from these purchases amounting to P57.7 million as of December 31, 2020 are shown as part of Trade payables under the Trade and Other Payables in the consolidated statements of financial position (see Note 15).

Further, My Solid also made advanced payments to STL, which remained outstanding as of December 31, 2020 are presented as part of Advances to suppliers under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.2).

In 2020, SEC and SVC purchased electronic devices from Avid Sales Corporation (Avid), a related party under common ownership. The related purchases were recorded as part of Net purchases under Cost of Sales account in the consolidated statement of income (see Note 17.1). The outstanding payable for

these purchases as of December 31, 2020, are shown as part of Trade payables under the Trade and Other Payables in the consolidated statements of financial position (see Note 15).

### ***25.2 Lease of Real Property***

SMC and OSSI leases out certain land and buildings and office space, respectively, to Avid, a related party under common ownership. Also, ZTC leases out its office space to TCL Sun Inc. Revenues arising from these transactions are presented as part of Rentals under the Revenues account of the consolidated statements of income. The outstanding balances arising from rentals and services charges are presented as part of Rental receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.5).

Further, SMC and ZTC bill service charges to its related parties for common usage and service area and consumption of utilities. Charges arising from these transactions are presented as Common usage service area under Other Operating Income (Expense) account in the consolidated statements of income (see Note 19).

Deposits received from the related parties are refundable at the end of the lease term of the agreements. These are presented as part of Refundable deposits under Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

### ***25.3 Granting of Loans***

In prior years, SMFI granted unsecured business loan to Avid, a related party under common ownership, with the original principal loan amounting to P80.0 million. This business loan bears an annual interest rate of 8.0% in 2020. The loan matured on January 18, 2020 and was renewed on the same date, repayable until January 18, 2025, its maturity date. Principal repayment related to this loan amounted to P1.5 million in 2020.

Total interest earned from these loans are shown as part of Interest under Revenues account in the consolidated statements of income. The outstanding balance of business loans granted as of March 31, 2021 and December 31, 2020 is shown as part of Loans receivables under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.3).

Based on management's evaluation, there were no impairment losses recognized on the outstanding loans receivables granted to related parties in 2020.

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

In the normal course of business, certain subsidiaries of the Group grants and obtains unsecured, noninterest-bearing cash advances to and from related parties under common ownership for working capital requirements and other purposes.

The reconciliation of the carrying amounts of advances to related parties account with movements during the reporting periods as presented in the consolidated statements of cash flows is shown in the succeeding page.

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	P 21,572,451	P 9,047,868
Deposit for future stock subscription – Fekon	5,480,000	18,185,600
Impairment losses for the year	( )	
Collection of advances	<u>-</u>	<u>(5,661,017)</u>
Balance at end of year	<u>P 27,052,451</u>	<u>P 21,572,451</u>

In 2020, the Parent Company made deposit in the shares of Fekon Solid Motorcycle Mfg. Corp. (Fekon), a related party under common ownership, in relation to the planned increase in authorized capital stock of the latter. Since Fekon is yet to apply for the planned increase in authorized capital stock to the Commission as of December 31, 2020, these are presented under advances to related parties.

On the other hand, SEC has an outstanding receivable from CPD Access Corporation, a related party under common ownership, for returns arising from purchases made in prior years and is presented as part of Advances to Related Parties in the consolidated statements of financial position. In 2020, the Group recognized impairment loss from the advances amounting to P5.7 million which is presented as Impairment losses on advances to related parties under General and Administrative Expenses account in 2020 consolidated statement of income (see Note 18).

Outstanding balances with related parties are unsecured, noninterest-bearing, have no fixed repayment and settlement terms, except as disclosed in Note 28.3, and are presented as Advances to and from Related Parties account in the consolidated statements of financial position.

### ***25.5 Transactions with STL***

SVC earns commission from sales of STL to customers in the Philippines. Commissions earned are presented as part of Rendering of services under Revenues account in the consolidated statements of income. The outstanding balance arising from these transactions as of December 31, 2020 is shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.1).

In 2020, My Solid earned commission income from STL at 10.7% of sales recognized by STL from its sale of My Solid's products. Commission income is presented as part of Rendering of services under Revenues account in the consolidated statements of income. The outstanding receivables from these transactions, which are generally unsecured, noninterest-bearing and settled through cash are presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.1).

### ***25.6 Key Management Personnel Compensation***

The compensation of key management personnel are shown as part of Salaries and employee benefits under General and Administrative Expenses account in the consolidated statements of income (see Notes 18 and 21.1).

### ***25.7 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, 2020.

The retirement fund consists of government securities and UITF and mutual funds with fair values totaling P214.3 million as at December 31, 2020 (see Note 21.2). 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 21.2.



### ***25.8 Sale of Goods***

My Solid and SVC sells mobile phones, tablets and accessories, tapes and equipment to Avid. Revenues from said transactions are presented as part of Sale of Goods under Revenues account in the statements of 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 consolidated statements of financial position (see Note 6.1).

### ***25.9 Rendering of Services***

OSSI provides leasing warehouse and distribution services to Avid. Revenues from the said transactions are presented as part of Rendering of Services under Revenues account in the consolidated statements of income.

The outstanding receivables arising from these transactions, which are generally unsecured, noninterest-bearing and settled through cash amounted to P0.7 million as of December 31, 2020 and is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.1).

### ***25.10 Advances to Officers***

In the ordinary course of business, the Group provided unsecured noninterest-bearing advances to its officers subject to liquidation. The outstanding receivable arising from these transactions are presented as part of Advances to officers and employees under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.2).

## **26. SIGNIFICANT CONTRACTS AND AGREEMENTS**

### ***26.1 Memorandum of Understanding with SPI***

On July 1, 2003, SEC entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony. Under the MOU, Sony authorized SEC to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee calculated as a percentage of Sony'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 Sony. 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 are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balances arising from these transactions amounted to P5.5 million as of December 31, 2020 and are included as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.1).

### ***26.2 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.

### ***26.3 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 is presented as part of Rendering of Services under Revenues in the consolidated statements of income. The outstanding receivable amounted to P0.3 million as of December 31, 2020 and is included as part of Trade receivables under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.1). The related expense is presented as part of Service fees under Cost of Services account in the consolidated statements of income (see Note 17.2).

## **27. COMMITMENTS AND CONTINGENCIES**

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

### ***27.1 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, 2020 are presented below.

	<u>2020</u>
Within one year	P 119,201,322
After one year but not more than two years	43,020,893
After two year but not more than three years	27,586,949
After three year but not more than four years	23,927,007
After four year but not more than five years	22,201,743
More than five years	<u>68,919,140</u>
	P <u>304,857,054</u>

The total rent income recognized from these transactions amounted to P242.7 million, including rent income resulting from the application of the straight-line basis of revenue recognition in accordance with PFRS 16 (previously PAS 17) in 2020, and are presented as Rentals under Revenues account in the consolidated statements of income.

### ***27.2 Purchase Commitments***

In 2007, ZTC has entered into several construction contracts with various subcontractors for the construction of Tri-Towers condominium building. The construction of Tower 1 and Tower 2 were completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started, yet it has incurred expenses for the planning phase as of December 31, 2020 (see Note 9.2).

### ***27.3 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 9.2). 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.

### ***27.4 Deficiency Tax Assessments***

In prior years, My Solid, SBC and SVC received deficiency tax assessments from the Bureau of Internal Revenue (BIR) indicating various deficiency taxes of those companies and MyTel Mobility Solutions, Inc. (MyTel). MyTel was absorbed by My Solid during its merger on 2012 resulting to the transfer of MyTel's assets and liabilities to My Solid by operations of law. These assessments are currently under protest with the BIR and/or these companies have filed for reinvestigation and/or review with the Court of Tax Appeals. The management believes that My Solid, SBC and SVC have enough evidence to support their claims and that the outcome of such tax assessments will not have a material impact in the Group's consolidated financial statements; hence, no provision was recognized as of December 31, 2020.

### ***27.5 Others***

The Group has unused credit facilities amounting to P1.1 billion in 2020.

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, 2020, 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.

## **28. 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 liabilities by category are summarized in Note 29. 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.

### ***28.1 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>2021</u>	<u>2020</u>
Financial assets	<b>P 245,025,659</b>	P 225,532,985
Financial liabilities	<b>( 111,355,456)</b>	( 62,938,617)
Short-term exposure	<b><u>P 133,670,203</u></b>	<u>P 162,594,368</u>

The following table illustrates the sensitivity of the Group's profit before tax in 2021 and 2020, with respect to changes in the exchange rates of Philippine peso against foreign currencies. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months prior to the end of the reporting period at a 99% confidence level.

	<u>2021</u>		<u>2020</u>	
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
PHP – USD	20.75%	<b><u>P27,730,142</u></b>	23.797%	P <u>38,681,200</u>

If the Philippine peso had strengthened against the USD, with all other variables held constant, the Group's profit before tax would have been lower by P27.7 million and P38.7 million in 2021 and 2020, respectively. Conversely, if the Philippine peso had weakened against the USD by the same percentage, with all variables held constant, profit before tax and equity would have been higher in 2021 and 2020 by the same amount.

Exposures to foreign exchange rates vary during the period depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be a reasonable estimation of the Group's currency risk.

(b) *Interest Rate Risk*

At March 31, 2021 and December 31, 2020, the Group is exposed to changes in market interest rates through its cash and cash equivalents and short-term placements, which are subject to variable interest rates (see Note 5). All other financial assets and financial liabilities have fixed rates.

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/- 1.11% in 2021 and +/-1.49% in 2020. 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 1.49%, profit before tax in 2021 and 2020, would have increased by P 253 million and P260.2 million, respectively. Conversely, if the interest

rate decreased by the same percentages, profit before tax in 2021 and 2020 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). 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.

## 28.2 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 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 maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position and in the detailed analysis provided in the notes to the consolidated financial statements, as summarized below.

	Notes	2021	2020
Cash and cash equivalents	5.1	<b>P 1,021,567,714</b>	P 918,335,159
Short-term placements	5.2	<b>3,316,618,613</b>	3,326,476,937
Trade and other receivables – net*	6	<b>1,016,033,631</b>	982,833,368
Refundable deposits**	13	<b>13,590,388</b>	19,208,263
Advances to related parties***	25.4	<b>3,386,851</b>	3,386,851
Deposit to suppliers**	13	<b>3,347,774</b>	3,347,774
Cash bond**	13	<b>680,834</b>	680,834
		<b><u>P 5,375,225,805</u></b>	<b><u>P 5,254,269,186</u></b>

\* *Except for Advances to supplier and Advances to officers and employees*

\*\* *Presented as part of Other Assets*

\*\*\* *Except for Deposit for future stock subscription*

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*

The Group applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables and other receivables.

With respect to other receivables from third parties, management assessed that these financial assets have low probability of default since the Group can apply the related payables to these counterparties in case it defaults.

For loans receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about borrower default rates, management considers the credit quality of loans receivables that are not past due or impaired in assessing the credit risk.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The Group also concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other receivables as it shares the same credit risk characteristics.

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

On that basis, the loss allowance as at December 31, 2020 was determined based on months past due, for trade and other receivables (except advances to officers and employees, interest receivables and cash surrender value of investment in life insurance) are as follows:

	<u>Not more than 60 days</u>	<u>More than 60 days but not more than 90 days</u>	<u>More than 90 days but not more than 120 days</u>	<u>More than 120 days</u>	<u>Total</u>
<b>December 31, 2020</b>					
Expected loss rate	1.06%	4.70%	34.33%	87.79%	
Gross carrying amount	P 213,694,460	P 12,584,398	P 14,293,344	P 121,163,402	P 361,735,604
Loss allowance	2,260,555	591,112	4,907,349	106,370,128	114,129,144

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*

For intercompany receivables that are repayable on demand, the ECL is based on the assumption that repayment of the receivables is demanded at the reporting date. The management determines the probability of collection upon demand. If a related party is unable to make repayment, the management considers the manner of recovery (i.e., sustained operations, availability of liquid and illiquid asset, etc.) to measure the ECL.

In 2020, the Group recognized impairment losses on advances to related parties amounting to P5.7 million which is presented under General and Administrative Expenses account in 2020 consolidated statement of income (see Note 18). There were no impairment losses that are required to be recognized in 2021.

(d) *Refundable and Other Deposits*

With respect to refundable and other deposits, management assessed that these financial assets have low probability of default since these relate to reputable power and water distribution companies (i.e., with

high quality external credit rating). Moreover, the Group has operating lease contracts as lessee with the counterparty lessors, wherein the Group can apply such deposits to future lease payments in case of defaults.

### 28.3 Liquidity Risk

Liquidity risk is the risk that cash may not be available to meet operating requirements and to pay obligations when due at a reasonable cost. Prudent liquidity risk management requires maintaining sufficient cash and credit facilities at reasonable cost to satisfy current requirements whenever the need arises. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

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, 2021 and December 31, 2020, the Group's financial liabilities [except for lease liabilities (see Note 10.2)] have contractual maturities, which are presented below.

	<u>Current</u>		<u>Non-current</u>	
	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>	
<b>2021</b>				
Trade and other payables	P 397,758,801	P -	P -	
Advances from related parties	1,881,570	-	-	
Refundable deposits			<u>29,099,010</u>	
	<u><b>P 399,640,371</b></u>	<u><b>P -</b></u>	<u><b>P 29,099,010</b></u>	
<b>2020</b>				
Trade and other payables	333,114,648	-	-	
Advances from related parties	1,881,570	-	-	
Refundable deposits			<u>28,889,217</u>	
	<u>P 334,996,218</u>	<u>P -</u>	<u>P 28,889,217</u>	

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.

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

### 29.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

	Notes	<u>2021</u>		<u>2020</u>	
		<u>Carrying Amounts</u>	<u>Fair Values</u>	<u>Carrying Amounts</u>	<u>Fair Values</u>
<b>Financial assets</b>					
At amortized cost:					
Cash and cash equivalents	5	P 1,021,567,714	P 1,021,567,714	P 918,335,159	P 918,335,159
Short-term placements	5	3,316,618,613	3,316,618,613	3,326,476,937	3,326,476,937

Trade and other receivables – net	6	1,016,033,631	1,016,033,631	982,833,368	982,833,368
Refundable deposits	13	13,590,388	13,590,388	19,208,263	19,208,263
Advances to related parties	25.4	3,386,851	3,386,851	3,386,851	3,386,851
Deposit to suppliers	13	3,347,774	3,347,774	3,347,774	3,347,774
Cash bond	13	680,834	680,834	680,834	680,834
		<u>5,375,225,805</u>	<u>5,375,225,805</u>	<u>5,254,269,186</u>	<u>5,254,269,186</u>
Financial assets at FVOCI –	7	<u>24,100,000</u>	<u>24,100,000</u>	<u>24,100,000</u>	<u>24,100,000</u>
		<b>P 5,399,325,805</b>	<b>P 5,399,325,805</b>	<b>P 5,278,369,186</b>	<b>P 5,278,369,186</b>
<b>Financial liabilities</b>					
At amortized cost:					
Trade and other payables	15	<b>P 397,758,801</b>	<b>P 397,758,801</b>	<b>P 333,114,648</b>	<b>P 333,114,648</b>
Refundable deposits	16	29,099,010	29,099,010	28,889,217	28,889,217
Lease liabilities	10.2	10,003,228	10,003,228	10,521,366	10,521,366
Advances from related parties	25.4	<u>1,881,570</u>	<u>1,881,570</u>	<u>1,881,570</u>	<u>1,881,570</u>
		<b>P 438,742,609</b>	<b>P 438,742,609</b>	<b>P 374,406,801</b>	<b>P 374,406,801</b>

See Note 2.5 for a description of the accounting policies for financial assets and financial liabilities, respectively, including the determination of fair values. A description of the Group’s risk management objectives and policies for financial instruments is provided in Note 28.

## 29.2 Offsetting of Financial Instruments

The Group has not set off financial instruments as of March 31, 2021 and December 31, 2020 and it 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 following financial assets presented as part of Advances to related parties under Receivables account in the consolidated statements of financial position can be offset by the amount of outstanding Advances from and Due to Related Parties account:

Note	Gross amounts recognized in the consolidated statements of financial position	Related amounts not set off in the consolidated statements of financial position	Net amount
Advances to related parties: 25.4			
<b>March 31, 2021</b>	<b>P 27,052,451</b>	<b>P -</b>	<b>P 27,052,451</b>
December 31, 2020	21,572,451	-	21,572,451
Advances from and due to related parties: 25.4			
<b>March 31, 2021</b>	<b>P 1,881,570</b>	<b>P -</b>	<b>P 1,881,570</b>
December 31, 2020	1,881,570	-	1,881,570

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.



## 30. FAIR VALUE MEASUREMENTS AND DISCLOSURES

### *30.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and 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;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the financial asset or financial liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial 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.

### *30.2 Financial Instruments Measured at Fair Value*

The Group's financial assets at FVOCI include proprietary golf club shares, which are categorized within 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. As of March 31, 2021 and December 31, 2020, the Group's financial assets at FVOCI measured at fair value amounted to P24.1 million both at the period stated, (see Note 7).

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

The Group has no financial liabilities measured at fair value as of March 31, 2021 and December 31, 2020.

There were neither transfers between Levels 1 and 2 nor changes in the carrying amount of Level 3 instruments in both years.

### 30.3 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.

	Notes	Level 1	Level 3	Total
<b>2021</b>				
<b>Financial Assets</b>				
<i>At amortized cost:</i>				
Cash and cash equivalents	5	P 1,021,567,714	P -	P 1,021,567,714
Short-term placements	5	3,316,618,613	-	3,316,618,613
Trade and other receivables – net	6	-	1,016,033,631	1,016,033,631
Refundable deposits	13	-	13,590,388	13,590,388
Advances to related parties	25.4	-	3,386,851	3,386,851
Deposit to suppliers	13	-	3,347,774	3,347,774
Cash bond	13	-	680,834	680,834
		<b>P 4,338,186,327</b>	<b>P 1,037,039,478</b>	<b>P 5,375,225,805</b>

	Notes	Level 1	Level 3	Total
<b>2021</b>				
<b>Financial Liabilities</b>				
<i>At amortized cost:</i>				
Trade and other payables	15	P -	P 397,758,801	P 397,758,801
Refundable deposits	16	-	29,099,010	29,099,010
Lease liabilities	10.2	-	10,003,228	10,003,228
Advances from related parties	25.4	-	1,881,570	1,881,570
		<b>P -</b>	<b>P 438,742,609</b>	<b>P 438,742,609</b>

<b>2020</b>				
<b>Financial Assets</b>				
<i>At amortized cost:</i>				
Cash and cash equivalents	5	P 918,335,159	P -	P 918,335,159
Short-term placements	5	3,326,476,937	-	3,326,476,937
Trade and other receivables – net	6	-	982,833,368	982,833,368
Refundable deposits	13	-	19,208,263	19,208,263
Advances to related parties	25.4	-	3,386,851	3,386,851
Deposit to suppliers	13	-	3,347,774	3,347,774
Cash bond	13	-	680,834	680,834
		<b>P 4,244,812,096</b>	<b>P 1,009,457,090</b>	<b>P 5,254,269,186</b>

<b>Financial Liabilities</b>				
<i>At amortized cost:</i>				
Interest-bearing loans – net	14	P -	P -	P -
Trade and other payables	15	-	333,114,648	333,114,648
Refundable deposits	16	-	28,889,217	28,889,217
Lease liabilities	10.2	-	10,521,366	10,521,366
Advances from related parties	25.4	-	1,881,570	1,881,570
		<b>P -</b>	<b>P 374,406,801</b>	<b>P 374,406,801</b>

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.

### **30.4 Fair Value Measurements of Non-financial Assets**

The fair value of the Group's land and improvements, and building and improvements classified under Investment Properties (see Note 12) are determined on the basis of the appraisals performed by Royal Asia Appraisal Corporation, an independent appraiser 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 was determined based on the following approaches (see Note 12):

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

The Level 3 fair value of land and improvements amounted to P3,170.9 million as of December 31, 2020, and was derived through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property.

*(b) Fair Value Measurement for Building and Building Improvements and Construction in Progress*

The Level 3 fair value of the buildings and improvements under Investment Property account amounted to P797.2 million as of December 31, 2020. On the other hand, the Level 3 fair value of the construction in progress under Investment Property account amounted to P67.0 million. These fair values were 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.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2020.

## **31. 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 products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities, excluding amounts advances from 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.

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>2021</u>	<u>2020</u>
Total liabilities (excluding advances from related parties)	<b>P 1,506,999,170</b>	P 1,445,551,945
Total equity	<b><u>10,876,674,575</u></b>	<u>10,856,311,642</u>
	<b><u>0.14 : 1.00</u></b>	<u>0.13 : 1.00</u>

As at March 31, 2021 and December 31, 2020, 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 December 31, 2020.

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

On March 26, 2021, RA No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, amending certain provisions of the National Internal Revenue Code of 1997, as amended, was signed into law with veto on certain provisions and shall be effective 15 days after its publication. The CREATE Act has several provisions with retroactive effect beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to the Group:

- (a) RCIT rate is decreased from 30% to 25% starting July 1, 2020; however, for entities with total assets of equal to or less than P100.0 million and taxable income of equal to or less than P5.0 million, the applicable RCIT rate is 20%;
- (b) MCIT rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023;
- (c) the imposition of 10% tax on improperly accumulated retained earnings is repealed; and,
- (d) the allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

Given that the CREATE Act was signed after the end of the current reporting period, the Group determined that this event is a non-adjusting subsequent event. Accordingly, its impact was not reflected in the Group's financial statements as of and for the year ended December 31, 2020, and instead, will be taken up prospectively in the next applicable reporting period. The Group used the prevailing tax rates as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements.

As a result of the application of the lower RCIT rates of 25% and 20% and lower MCIT rate of 1% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return (ITR) of the Group, would be lower by P4.2 million and P2.6 million, respectively, than the amount presented in the 2020 financial statements. Conversely, the creditable withholding taxes presented in the 2020 annual ITR would be higher by P1.6 million than the amount presented in the 2020 financial statements.

In addition, the recognized net deferred tax assets and net deferred tax liabilities as of December 31, 2020 would be remeasured to 25% and 20% in the 2021 financial statements. This will result in a decline in the recognized deferred tax assets and deferred tax liabilities in 2020 amounting to P13.2 million and P160.2 million, respectively, and will be charged to 2021 profit or loss, unless it can be recognized in other comprehensive income as provided in applicable financial reporting standard. The unrecognized deferred tax assets as of December 31, 2020 will also result in a decline in 2020. However, such decline in the unrecognized net deferred tax assets will not have an impact in the 2021 profit or loss or in other comprehensive income.

**SOLID GROUP INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**MARCH 31, 2021**

<b>RATIO</b>	<b>FORMULA</b>	<b>Unaudited as of March 31, 2021</b>		<b>Audited as of December 31, 2020</b>	
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<u>5,650,078,123</u>	<b>11.65</b>	<u>5,568,483,966</u>	<b>13.15</b>
		484,803,063		423,565,631	
Acid Test ratio	$\frac{\text{Quick Assets (Cash \& Cash Equivalents+ Short term Placements+ Trade Receivables)}}{\text{Current Liabilities}}$	<u>4,692,034,670</u>	<b>9.68</b>	<u>4,559,968,446</u>	<b>10.77</b>
		484,803,063		423,565,631	
Solvency ratio	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$	<u>1,508,880,740</u>	<b>0.12</b>	<u>1,447,433,515</u>	<b>0.12</b>
		12,385,555,315		12,303,745,157	
Debt to Equity ratio	$\frac{\text{Total Liabilities (excludingadvances from related parties)}}{\text{Total Equity}}$	<u>1,506,999,170</u>	<b>0.14</b>	<u>1,445,551,945</u>	<b>0.13</b>
		10,876,674,575		10,856,311,642	
Gearing ratio	$\frac{\text{Financial Debt}}{\text{Total Equity}}$	<u>-</u>	-	<u>-</u>	-
		10,876,674,575		10,856,311,642	
Asset to Equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<u>12,385,555,315</u>	<b>1.14</b>	<u>12,303,745,157</u>	<b>1.13</b>
		10,876,674,575		10,856,311,642	
		<b>Unaudited for the period ended March 31, 2021</b>		<b>Unaudited for the period ended March 31, 2020</b>	
Interest Coverage ratio	$\frac{\text{EBIT}}{\text{Interest Expense}}$	<u>25,027,302</u>	<b>208.25</b>	<u>11,444,974</u>	<b>13.45</b>
		120,180		851,128	
Operating Margin	$\frac{\text{Operating Profit (Loss)}}{\text{Total Revenues}}$	<u>19,222,437</u>	<b>0.053</b>	<u>3,533,693</u>	<b>0.012</b>
		362,006,334		291,399,518	
Net Profit Margin	$\frac{\text{Net Profit (Loss) after Tax}}{\text{Total Revenues}}$	<u>16,324,341</u>	<b>0.045</b>	<u>65,584</u>	<b>0.0002</b>
		362,006,334		291,399,518	
Return on Total Assets	$\frac{\text{Net Profit (Loss) after Tax (annualized)}}{\text{Average Total Assets}}$	<u>65,297,364</u>	<b>0.005</b>	<u>262,336</u>	<b>0.00002</b>
		12,344,650,236		12,088,960,244	
Return on Equity	$\frac{\text{Net Profit (Loss) after Tax (annualized)}}{\text{Total Equity}}$	<u>65,297,364</u>	<b>0.006</b>	<u>262,336</u>	<b>0.00002</b>
		10,876,674,575		10,643,592,213	