

# 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

Department requiring the report

Secondary License Type, If Applicable

1	7	-	A
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S	E	C
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Certificate of Permit to Offer Securities for Sale
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(For December 31, 2018)

**COMPANY INFORMATION**

<p>Company's Email Address</p> <div style="border: 1px solid black; padding: 2px;">dinainting@allianceglobal.com.ph</div>	<p>Company's Telephone Number/s</p> <div style="border: 1px solid black; padding: 2px;">709-2038 to 41</div>	<p>Mobile Number</p> <div style="border: 1px solid black; height: 20px;"></div>
<p>No. of Stockholders</p> <div style="border: 1px solid black; padding: 2px;">1,008</div>	<p>Annual Meeting Month/Day</p> <div style="border: 1px solid black; padding: 2px;">JUNE 3RD THURSDAY</div>	<p>Fiscal Year Month/Day</p> <div style="border: 1px solid black; padding: 2px;">DECEMBER 31</div>

**CONTACT PERSON INFORMATION**

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

<p>Name of Contact Person</p> <div style="border: 1px solid black; padding: 2px;">DINA INTING</div>	<p>Email Address</p> <div style="border: 1px solid black; padding: 2px;">dinainting@allianceglobal.com.ph</div>	<p>Telephone Number/s</p> <div style="border: 1px solid black; padding: 2px;">709-2038 to 41</div>	<p>Mobile Number</p> <div style="border: 1px solid black; height: 20px;"></div>
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Contact Person's Address

7th Floor, 1880 Eastwood Avenue, Eastwood City Cyberpark, 188 E. Rodriguez Jr. Avenue, Bagumbayan, Quezon 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-A

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

1. *For the fiscal year ended* **December 31, 2018**
2. *SEC Identification Number* **AS093-7946**
3. *BIR Tax Identification No.* **003-831-302-000**
4. *Exact name of issuer as specified in its charter* **ALLIANCE GLOBAL GROUP, INC.**
5. **METRO MANILA, PHILIPPINES**  
*Province, country or other jurisdiction of incorporation or organization*
6. *(SEC Use Only)*  
*Industry classification code*
7. **7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark  
188 E. Rodriguez Jr. Avenue, Bagumbayan, 1110 Quezon City**  
*Address of principal office*
8. **(632) 7092038 to 41**  
*Registrant's telephone number, including area code*
9. *Securities registered pursuant to Sections 8 and 12 of the SRC, or secs. 4 and 8 of the RSA*

<i>Title of Each Class</i>	<i>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding As of December 31, 2018</i>
<b>Common</b>	<b>10,269,827,979</b>
<b>Treasury shares</b>	<b><u>232,400,400</u></b>
<b>Outstanding</b>	<b>10,037,427,579</b>

10. *Are any or all of these securities listed on Philippine Stock Exchange?* **Yes.**
11. (a) *AGI has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months.*  
(b) *AGI has been subject to such filing requirements for the past ninety (90) days.*
12. *The aggregate market value of the voting stock held by non-affiliates of AGI as of December 31, 2018, based on the average price of its common stock of Sixteen Pesos and Thirty-Nine Centavos (P16.39) on the Philippine Stock Exchange on April 8, 2019, is P66,111,759,631.*

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**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**SUPPLEMENTARY SCHEDULES TO THE FINANCIAL STATEMENTS**

## PART I - BUSINESS AND GENERAL INFORMATION

### 1. BUSINESS

#### *a. Organization And Business Development In The Past Three Years*

##### *a.1. The Company*

**Alliance Global Group, Inc.** (“AGI” or “the Company”) is one of the leading conglomerates in the Philippines, with interests in property development, food and beverage manufacture and distribution, quick-service restaurants and integrated tourism development businesses. The Company and its subsidiaries, associates and jointly-controlled entities operate a diversified range of businesses that focus on developing products and services that generally cater to the target markets.

Incorporated on October 12, 1993, AGI began operations in 1994 as a glass-container manufacturer after it acquired a glass manufacturing plant in Canlubang, Laguna. AGI initially listed its shares in the Philippine Stock Exchange (“PSE”) in 1999; after which in the same year, it broadened its primary business and become a holding company. Immediately, the Company began its diversification into the food and beverage and real estate industries, and, in 2005, into the quick-service restaurant business. In 2007, it reorganized to consolidate businesses controlled by Dr. Andrew L. Tan and family (“**Tan family**”), specifically in the distilled spirit manufacturing and property development. In 2008, the Company entered into integrated tourism development, with gaming activities, by partnering with a leading multinational leisure, entertainment and hospitality group. In 2011, AGI expanded its integrated tourism estate development outside of Metro Manila, particularly in the Calabarzon and Visayan regions, and in 2014, in Mindanao. From 2013 to 2017, the Group expanded its spirits manufacturing business abroad through acquisitions of rich heritage in Spain, United Kingdom and Mexico. The Group started acquiring vineyard lands, aged liquids and assets in Spain in early parts of 2013 and 2014, and brandy and sherry wine assets in 2016 and 2017, which include the oldest bodegas in Spain, the first brandy in Jerez and Mexico and other well-known brands which the Group now owns. The Group owns the 5<sup>th</sup> largest Scotch Whisky manufacturer in the world with a history of more than 170years, which was acquired in 2014; thus fortifying the distilled spirits business segment. The Group did realignments and acquisitions also in the real estate segment from 2013 to 2018 where it continues to introduce innovative concepts such as ‘integrated lifestyle community’ and ‘transit-oriented developments’ in addition to its ‘live-work-learn-play’ township while the expansion of non-gaming facilities and offerings and quick-service restaurants is ongoing. AGI begins diversifying into infrastructure in 2017 and, in 2018, received an original proponent status for its Skytrain monorail project and its consortium airport project.

The Tan family beneficially owns a majority interest in AGI.

## *a.2. Subsidiaries*

### ***Emperador Inc.***

**EMPERADOR INC.** (“EMP” or “Emperador”) is a publicly-listed domestic holding company that operates an integrated business of manufacturing, bottling and distributing distilled spirits and other alcoholic beverages from the Philippines, United Kingdom, Spain, and Mexico, through its wholly-owned subsidiaries. EMP and its subsidiaries (collectively referred to as “EMP Group”) has as wide range of products in its portfolio – from value to super premium – and an international reach to at least 102 countries. EMP Group has acclaimed renown as the world’s largest brandy producer, leading the brandy segment in the Philippines and Spain, and the world’s fifth largest Scotch whisky producer. Emperador has established its identity in the Philippine alcoholic beverages business as producer of high-quality liquor and innovative products – predominated by ‘Emperador Brandy’ which was introduced in 1990 through Emperador Distillers, Inc. (“EDI”), the Philippines’ largest liquor company and the world’s largest brandy producer. EMP fortified this rich heritage with the acquisition of century-old businesses in Jerez, Spain, known as the world capital of sherry wine and home of the Brandy De Jerez, and in Scotland, United Kingdom, home of Scotch whisky, which themselves were acclaimed as being the first and oldest facility in Spain and the fifth largest Scotch whisky manufacturer in the world.

Emperador has established its identity in the Philippine alcoholic beverages business as producer of high quality liquor and innovative products through **Emperador Distillers, Inc.** (“EDI”), the Philippines’ largest liquor company and the world’s largest brandy producer. EDI, a wholly owned subsidiary of EMP, has a product portfolio that consists of its own brands, the Group’s brands as well as licensed products. The offshore operations of Emperador fall under the wings of **Emperador International Limited** (“EIL”), a wholly-owned subsidiary of EMP, whose subsidiaries handle the Scotch whisky, Jerez and Mexican brandies and sherry wine operations. Through **Emperador UK Limited** (“EUK”), EMP acquired a rich heritage of a Scottish spirits company in **Whyte and Mackay Group Limited** (“WVG” or “Whyte and Mackay”) of United Kingdom, the fifth largest Scotch whisky manufacturer in the world with products being distributed in over 102 countries. Through **Grupo Emperador Spain S.A.U.** (“GES”), EMP has expanded its rich heritage to brandy de Jerez and sherry wine and assets, including trademarks, vineyards, and well-matured inventory, in Spain with the acquisition of **Bodega San Bruno; Bodegas Fundador**, the largest and oldest in Jerez; and **Bodegas Garvey**, with origins dating back to 1780. GES further enhanced its brandy and wine business in North and South Americas with the acquisition of assets related to **Domecq** brandy and wines. At present, EMP has a wider range of products in its portfolio - from value to super premium – and an international reach to at least 102 countries.

EMP was incorporated on November 26, 2001 under its former name Touch Solutions, Inc., which listed its shares on the PSE on December 19, 2011. From August to September 2013, AGI, EDI and EMP, which was substantially a shell company at the time, entered into a reverse acquisition in a series of transactions whereby AGI acquired majority control over EMP and EMP acquired full ownership of EDI. EMP has P20.0 billion authorized capital stock, P16.2 billion of which are outstanding as of December 31, 2018. Its consolidated total assets amounted to P117.8 billion as at December 31, 2018.

**EDI**, a wholly-owned subsidiary of EMP, is the leading brandy manufacturer and distributor of distilled spirits in the Philippines and acknowledged as the largest brandy producer in the world. It produces own label brands, namely, ‘Emperador Brandy’, ‘Andy Player Whisky’, ‘The BaR’ flavored alcoholic beverage (gin, vodka, tequila) and ‘Raffa’ Sparkling white wine; manufactures ‘Smirnoff Mule Vodka’ under license from Diageo North America, Inc.; and distributes Ernest & Julio Gallo wines, Whyte and Mackay Scotch whisky products, Fundador brandy products and Pik-Nik shoestring-shaped potato snacks in the Philippines. Emperador Brandy has established its distribution footprint to 55 countries by end-2018. EDI was incorporated on June 6, 2003 and was sold to AGI by **The Andresons Group, Inc.** (“TAGI”) and the Tan Family on February 16, 2007. EDI has an authorized capital stock of 22 billion, of which 12.5 billion shares are outstanding and held by EMP as of to-date.

EDI operates two manufacturing plants in Laguna. The main plant is being leased from its wholly-owned domestic subsidiary **Tradewind Estates, Inc.** (“TEI”) while the annex plant was acquired from Diageo Philippines in May 2012. TEI was incorporated on September 22, 2000 and was acquired by EDI from its previous owner, Alliance Global Brands, Inc. (a wholly-owned subsidiary of AGI), in March 2016. EDI has its own distillery plant which was acquired in February 2013 from **The Consolidated Distillers of the Far East, Inc.** (“Condis”), which is owned by the Tan family.

Another distillery plant was built and became operational in 2018. Both plants are being leased out to a wholly-owned domestic subsidiary **Progreen Agricorp, Inc.**, which handles the distillery operations. EDI procures its new bottles from **Anglo Watsons Glass, Inc.** (“AWG” or “AWGI”), a wholly-owned domestic subsidiary of EDI, which caters principally to EDI’s requirements. AWG operates a flint glass container manufacturing plant in Laguna on a 24-hour shift which it leases from AGI.

### International Operations

**EIL**, a wholly owned subsidiary of EMP, is a business company incorporated in the British Virgin Islands on December 13, 2006, which is involved in the international sales, marketing and merchandising of EMP products. EIL and its subsidiaries are responsible for the offshore investments and properties in Spain, United Kingdom, and Mexico.

**Emperador Asia Pte Ltd.** (“EAsia”), a wholly-owned subsidiary of EIL, was incorporated in Singapore. It wholly owns **GES**, a public liability company in Spain, incorporated on September 28, 2011. **GES** main activities are the production of wines, fortified wines, brandies and all types of alcoholic drinks, as well as the purchase and operation of any type of land and, in particular, vineyards. In 2013, it acquired **Bodega San Bruno, S.L.** (“BSB”), a wholly-owned subsidiary incorporated on January 10, 2013, whose business activities involved the plantation, growing and operation of vineyards. The acquisition included Bodega San Bruno, the San Bruno trademark, vineyards, and sizable inventory of high-quality well-matured brandy from **Gonzalez Byass S.A.** (“GBS”), one of the largest and oldest liquor and wine conglomerate in Spain. The Spain group acquired vineyard estates in 2013-14. In 2014, Gonzalez Byass agreed to give Emperador 50% participation in **Bodega Las Copas** (“BLC”), a fully integrated brandy production company that it owns. On February 29, 2016, **Bodegas Fundador SLU** (“Bodegas Fundador”), a wholly-owned subsidiary of GES incorporated on September 28, 2011 under its former name Brandy Emperador Spain, completed the purchase in a deal signed on November 27, 2015, of the Spanish brandy and sherry business in Jerez de la Frontera, from **Beam Suntory Inc.** The purchase includes Spain’s largest and oldest brandy cellars with sizeable brandy inventory aged more than 50 years; four iconic brands including ‘Fundador Brandy de Jerez’, the first Brandy de Jerez, and ‘Harveys’, the leading sherry wine in UK; production and bottling facilities, vineyards, distillery and winery facilities. Bodegas Fundador was consolidated starting March 2016. On January 19, 2017, **Complejo Bodeguero San Patricio SLU** (“CBSP”), a wholly-owned subsidiary of GES incorporated on October 11, 2016, acquired well-known brands and associated inventories and casks and real estate properties, including the **Bodegas Garvey**, one of the ancient brandy and sherry winery in Jerez founded in 1780. On March 30, 2017, BLC and its two subsidiaries, Pedro Domecq S.A. de C.V. and Bodega Domecq S.A. de C.V., completed the acquisition of the ‘Domecq’ brandies and sherry wine portfolio and related assets from **Pernod Ricard SA**, from a deal signed on December 1, 2016. In a restructuring that followed, BLC transferred the acquired assets, which include the trademark to the first Mexican brandy ‘Presidente’ and winery in Ensanada, and three Mexican subsidiaries to **Domecq Bodega Las Copas SL** (“Domecq BLC” or “DBLC”) effective September 1, 2017. DBLC is a newly-incorporated subsidiary of GES with 50% equity owned by GB. Its wholly-owned subsidiaries in Mexico, **Pedro Domecq SA de CV** and **Bodega Domecq SA de CV** were incorporated on March 15, 2017 while **Gonzales Byass de Mexico SA de CV** was incorporated on October 2, 2001. The first is involved in the manufacturing, bottling and selling of spirits, the second is involved in business management while the latter is the distribution and sale of foods and beverages, which currently is mainly for the former two subsidiaries.

For its part, BLC keeps its main activities - planting, cultivation and exploitation of vineyards destined to grape for distillation, and manufacture, storage, distribution, sale of wine spirits, liquors, spirits and similar – which are developed throughout its Spanish fully owned subsidiaries **Alcoholera de la Mancha Vinicola, S.A.U.** (“Alcomasa”) and **Viñedos del Río Tajo, S.L.U.** (“Viñedos”), and the remaining stakes in the Mexican companies referred to above.

**Emperador Holdings (GB) Limited** (“EHGB” or “EGB”), the ultimate UK parent undertaking and controlling entity, is a wholly-owned subsidiary of EIL. EGB is a private company incorporated under the laws of England and Wales on June 19, 2014. It operates as an investment and holding company and wholly owns **EUK**, a private limited company incorporated in Scotland on May 6, 2014. On October 31, 2014, **Whyte and Mackay Group Limited** (“WMG” or “Whyte and Mackay”) and subsidiaries were folded into the Emperador group, as a deal signed on May 9, 2014 between EUK and United Spirits (Great Britain) Limited, an indirect wholly-owned subsidiary of **United Spirits Limited** (“USL”) of India, was completed for an enterprise value of £430 million. USL (the world’s largest spirits company by volume) was forced to put Whyte and Mackay up on sale because of UK anti-trust concerns, when London-based Diageo Plc (the world’s leading premium drinks manufacturer) gained controlling interest in USL. Whyte and Mackay is the fifth largest Scotch whisky manufacturer in the world with a history of more than 170 years and ownership of some of the most iconic Scotch brands in the industry, including British luxury brand ‘The Dalmore Single Highland Malt’, ‘Jura Single Malt’, and ‘Whyte & Mackay Blended Scotch Whisky’. The products are distributed in approximately 102 countries mainly in Europe, North America and now Asia, with strong presence in the global travel retail space. Some of these products are now being distributed in the Philippines by EDI. WMG, the immediate parent and smallest consolidating group, was incorporated on August 7, 2001 in Scotland. The main trading entity and a wholly owned subsidiary is **Whyte and Mackay Limited** (“WML”), incorporated on January 20, 1927 in Scotland, the principal activity of which is the production, marketing and distribution of distilled potable alcoholic drinks which include Scotch whisky, vodka, liqueurs and other alcoholic drinks. The other two active wholly-owned entities are **Whyte and Mackay Warehousing Ltd.** (“WMW”), incorporated in Scotland, and **Whyte and Mackay Americas Ltd, LLC** (“WMA”), incorporated in the United States of America. WMW’s principal activity is the warehousing and blending of bulk whisky for related and third-party customers while WMA, a direct subsidiary of WML, was formed to handle Whyte and Mackay’s business portfolio in US market. There are forty-two dormant companies within WMG Group that have been retained for branding purposes. Whyte and Mackay is headquartered in Glasgow and has significant malt and grain production capability from its four malt distilleries and one large grain distillery. It also has a leased bottling facility.

On December 4, 2014, with the completion of the Whyte and Mackay acquisition as a condition precedent to its entry, Singapore sovereign wealth fund **GIC Private Ltd.** (“GIC”), through its private equity arm, **Arran Investment Pte. Ltd.** (“Arran”) initially invested P17.6 billion in the Company split into 70%-equity and 30%-equity-linked securities debt (“ELS”), which is convertible to equity between 2 to 7 years. In 2017, additional new shares were issued to Arran in consideration for the three-year accrued interest on the ELS.

### ***Megaworld Corporation***

**MEGAWORLD CORPORATION** (“MEG” or “Megaworld”), a publicly-listed domestic company since 1994, is one of the leading property developers in the Philippines and is primarily engaged in the development of large scale mixed-use planned communities or townships, which are comprised of residential, commercial, and office developments and integrate leisure, entertainment and educational/training components. Founded in 1989, Megaworld initially established a reputation for building high quality residential condominiums and commercial properties located in convenient urban locations with easy access to offices as well as leisure and entertainment amenities in Metro Manila. Beginning in 1996, in response to demand for the lifestyle convenience of having quality residences in close proximity to office and leisure facilities, Megaworld began to focus on the development of mixed-use communities, primarily for the middle-income market by commencing Eastwood City in Quezon City, which is the pioneer project for Meg’s “live-work-play-learn” lifestyle township concept and the country’s first cyberpark to be designated a Philippine Economic Zone Authority (“**PEZA**”) special economic zone. It has since then grown and diversified its roster of townships to twenty-three: four in Fort Bonifacio, six in Metro Manila, six in Luzon, six in Visayas, and one in Mindanao.

Megaworld and its subsidiaries (“Megaworld group”) have real estate portfolio that includes residential condominium units, subdivision lots and townhouses as well as office and retail developments. It has the following three primary business segments: (i) real estate sales of residential developments, (ii) leasing of office and retail space and (iii) management and operation of hotels. As of December 31, 2018, Megaworld owns or has development rights to over 4,400 hectares of land located throughout the Philippines. Since its incorporation, Megaworld and its affiliates have launched more than 696 residential buildings, 63 office towers, 19 lifestyle malls and 21 hotels.



The company founded by Dr. Andrew Tan has won recognition awards over the years. Recently, in 2017, it received 73 awards from both local and international award-giving bodies. It received three best developer awards, three executive awards, 37 project awards, nine corporate awards, 11 CSR awards and 10 communication awards. Dr. Andrew Tan received the hall of fame award as Property Man of the Year at the Property and Real Estate Awards and was awarded the Special Achievement Award at the Asia Pacific Entrepreneurship Awards.

Through its subsidiaries, MEG also engages in other property related activities such as project design, construction oversight and property management. Through a wholly-owned subsidiary, **Prestige Hotels & Resorts, Inc.**, MEG owns and operates the Richmonde Hotel Ortigas in Mandaluyong City, Eastwood Richmonde Hotel in Quezon City and Richmonde Hotel Iloilo in Mandurriao, Iloilo City. MEG has two other homegrown hotel brands – Belmont and Savoy.

Megaworld has P40.2 billion authorized capital stock and P32.43 billion paid-up capital (both common and preferred stock) as at end-2018. Its consolidated total assets amounted to P322.3 billion as at December 31, 2018.

From 46% effective ownership interest in MEG in 2007, the Group increased its effective ownership interest in MEG which is now at 67% by end-2018 through purchases in the market, exercise of stock rights and warrants, and subscription to new shares.

**Global Estate-Resorts, Inc.** (“GERI”), a publicly listed domestic company incorporated on May 18, 1994, is one of the leading property developers in the country and is engaged primarily in the development of integrated tourism and urban townships with residential, office, retail, hotel and/or golf components. It has vast land bank where key developments include Boracay Newcoast in Malay, Aklan; Twin Lakes in Laurel, Batangas; Sta. Barbara Heights in Iloilo; Southwoods City in Laguna and Cavite; Alabang West in Las Piñas, Metro Manila; Eastland Heights in Antipolo, Rizal; and The Hamptons Caliraya in Lumban-Cavinti, Laguna. GERI undertakes its development business by itself or through joint venture with landowners. The township developments are marketed by a subsidiary and an in-house marketing group. Another subsidiary operates Fairways and Bluewater, a resort complex integrated with Boracay Newcoast. GERI has P20 billion authorized capital stock, P10.986 billion of which was subscribed and paid-up as at December 31, 2018. Total assets reported as at end-2018 amounted to P46.0 billion.

AGI acquired 60% interest in GERI in January 2011. With the capital infusion, GERI was able to pay its interest-bearing loans and pursue its development plans. In 2013, GERI doubled its authorized capital stock, of which Megaworld subscribed to 25% of the said increase; this together with indirect holdings translates to Meg’s 24.7% beneficial ownership in GERI at end-2013. As at end-2018, Megaworld holds 82.32% of GERI.

**Empire East Land Holdings, Inc.** (“Empire East” or “ELI”), a publicly-listed domestic company under the Megaworld group, was incorporated on July 15, 1994. It specializes in multi-cluster condominium projects and multi-phase subdivision developments in key locations in Metro Manila and Laguna. Laguna Bel-Air is ELI’s flagship township project while Pioneer Woodlands in Mandaluyong is its first transit-oriented development. ELI is 81.73% owned by Megaworld. Total assets reported as at end-2018 amounted to P42.2 billion.

**Suntrust Properties, Inc.** (“SPI”), incorporated on November 14, 1997, develops master-planned self-sustaining residential communities and condominiums in Cavite, Laguna, Batangas, Baguio, Davao and Metro Manila that provide affordable homes for the low- to moderate-income families. The developments focus on space-saving and functionality features. In March 2011, MEG acquired 50% majority interest in SPI. In 2013, MEG acquired 100% ownership by buying out the minority interests of Empire East and another related party.



***Travellers International Hotel Group, Inc.***

**TRAVELLERS INTERNATIONAL HOTEL GROUP, INC.** (“Travellers”), a publicly-listed domestic company since November 5, 2013, was incorporated on December 17, 2003. It is the developer and operator of **Resorts World Manila** (“RWM”), an integrated tourism resort in the Philippines. RWM is the first integrated leisure and resort property in the Philippines that combines privately-operated gaming facilities with hotel, retail, dining, entertainment and other leisure amenities. Travellers was awarded one of the first licenses issued by the **Philippine Amusement and Gaming Corporation** (“PAGCOR”) in June 2008 to construct and operate integrated leisure and gaming facilities to an international standard with the goal of enhancing tourism in the Philippines. RWM, which was the first site to be completed, opened in August 2009.

RWM is an approximately 11.5-hectare integrated tourism resort that is strategically located across the Ninoy Aquino International Airport Terminal 3 (“NAIA-3”) in Pasay City, Manila and approximately five kilometers away from NAIA Terminal 1 (“NAIA-1”) and NAIA Terminal 2 (“NAIA-2”) and directly linked to highways leading to Makati. RWM is a 24-hour, one-stop, world-class leisure and entertainment facility within Newport City, a mixed-use community of integrated residential condominiums, hotels, restaurants, shops and offices developed by Megaworld. RWM features a themed shopping and entertainment center, three hotels – Maxims Hotel, an all-suite luxury hotel; the Marriott Hotel Manila, a five-star hotel catering to international business and leisure travelers; and the Holiday Inn Express Manila Newport City (formerly, Remington Hotel), a mid-range hotel, and the Marriott Grand Ballroom, a MICE (meetings, incentives, conventions and exhibitions) venue with over 8,000 square meters of function space.

Construction of RWM commenced in July 2008, and its gaming facilities and casino opened in August 2009, along with non-gaming features, such as the 11,534 sq. m. Newport Mall, which includes a retail mall, a 1,500 seat performing arts theater (the “Newport Performing Arts Theater”) and a four-screen cinema. The Marriott Hotel Manila opened in October 2009 and offers 342 rooms and suites plus 228 rooms in the Marriott West Wing which opened in November 2016; Maxims Hotel opened in December 2010 and offers 172 suites and villas, and the Remington Hotel opened in November 2011. The Marriott Grand Ballroom, a world-class events and convention center, formally opened its doors to the public in March 2015. In 2018, RWM opened a portion of its Phase 3 development project dedicated to gaming activities which is called the Grand Wing. Furthermore, the Hilton brand marked its return in the Philippines with the official opening of Hilton Manila in October 2018. Also in 2018, the Company ventured outside Metro Manila and opened the first international hotel in Iloilo City- the Courtyard by Marriott Iloilo (Courtyard). And in January 2019, Sheraton Manila Hotel officially opened its doors to the public.

Travellers is AGI’s first integrated tourism vehicle in Metro Manila through a partnership deal in August 2008 with Malaysia-based Genting Group through **Genting Hong Kong Limited** (“GHK”), a company with shares listed on The Stock Exchange of Hong Kong Limited and traded on the GlobalQuote of Singapore Exchange Securities Trading Limited. The partnership combines AGI’s expertise in the Philippine mixed-use township development, food and beverage (“F&B”) and quick service restaurants, and GHK’s international experience as an owner and operator of casino and gaming businesses, operator of passenger cruise ships and provider of cruise-related leisure, entertainment and hospitality services. GHK is affiliated with Genting Berhad and its subsidiaries and associates (the “Genting Group”).

Travellers has P10 billion authorized capital stock (common and preferred shares), of which P1.68 billion is outstanding as at end-2018. AGI’s ownership interest is accounted through direct holding of 25.12% and indirect holdings through its subsidiaries Megaworld, First Centro, Inc. and Adams Properties, Inc. (“Adams”) which hold 1.84%, 4.49% and 22.47%, respectively, of Travellers’ outstanding common shares. Adams holds 83.3% of outstanding preferred shares. Travellers has consolidated total assets of P107.30 billion as at end-2018.

### ***Golden Arches Development Corporation***

**GOLDEN ARCHES DEVELOPMENT CORPORATION** (“GADC”) is a domestic corporation engaged in the operations and franchising of quick service restaurant business under the McDonald’s brand in the Philippines and in accordance with the master franchise agreement with **McDonald’s Corporation** (“MCD”), a company incorporated in Delaware and with principal offices in Illinois, USA. GADC was incorporated on July 16, 1980. It has P99.44 million authorized and paid up common capital stock, 49% of which is held by AGI and the rest by its founder, Mr. George Yang and his family. Its consolidated total assets amounted to P20.33 billion at end-2018.

AGI acquired its 49% interest in GADC on March 17, 2005 from **McDonald’s Restaurant Operations, Inc.** (“MRO”), a subsidiary of MCD, both of which are foreign corporations incorporated in the USA. MRO holds all of GADC’s preferred shares.

**Golden Arches Realty Corporation** (“GARC”) leases solely to GADC parcels of land where McDonald’s restaurants and warehouses are situated. It was incorporated on June 25, 2001 and, at present, has P1 million authorized and issued common shares, 49% of which is held by AGI.

### ***Infracorp Development, Inc.***

**INFRACORP DEVELOPMENT, INC.** (“Infracorp”) is a wholly-owned domestic corporation incorporated in 2017 with the primary purpose to bid for, invest in, and/or implement infrastructure-related projects, such as but not limited to monorail, airports, expressways, toll roads, reclaimed land development and, in relation thereto, to acquire, lease out, develop or otherwise engage in income-generating activities involving real property and other rights related to its infrastructure projects. It will handle infrastructure projects, particularly mass transportation to improve connectivity of AGI’s properties. The diversification into infrastructure building is aligned with the government’s goal to usher in a golden age of infrastructure in the country.

On October 10, 2017, Infracorp submitted an unsolicited proposal to the government to build a 1.87km skytrain connecting Line 3 Guadalupe station to Uptown Bonifacio. The chosen technology for this project would be the first of its kind to be used by adopting an Automated People Mover (APM), with a maximum operating speed of 40 to 50kph. The government granted the Original Proponent Status last May 17, 2018 and now endorsed and undergoing review and evaluation of NEDA.

The Company forms part of the NAIA consortium, a P102 billion- project together with six more of the largest conglomerates in the country and together submitted an unsolicited proposal to the government last February 12, 2018 which aims to rehabilitate, upgrade, expand, operate and maintain the Ninoy Aquino International Airport for 15 years. The project aims to transform NAIA into a world-class facility and a regional transport hub and ensure that NAIA would have the capacity to meet the continued growth in passenger traffic. Upon full operations, NAIA is expected to accommodate as many as 65 million passengers per annum. The government has granted this consortium Original Proponent Status last September 10, 2018.

### ***a.3. Bankruptcy or Similar Proceedings and Significant Assets not in Ordinary Course***

The Company and its subsidiaries have not been involved in any bankruptcy, receivership or similar proceedings. Likewise, there were no other material reclassifications, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

### ***b. Business Description***

AGI is a holding company with interests in the food and beverage business (manufacturing and trading of consumer products), real estate (investment in and development of real estate, lease of properties, hotel operations and tourism resorts businesses), tourism-entertainment and gaming, and quick service restaurant (McDonald’s) business. Through its subsidiaries and associates, the Company focuses on providing and developing products and services that cater to the needs, demands and aspirations of its target markets. The Company believes that it is well positioned to benefit from consumer demand driven by the expected growth of the middle-income sector.

*b.1. Principal Products or Services and their Markets*

**EMP**



**Emperador Brandy**, the first brandy label, was launched in 1990 in the Philippines and is currently the leading local brandy in the country. In 2010, **Emperador Light** was introduced in response to a growing market for alcoholic beverages with lower alcohol content and targeted at younger alcoholic beverage consumers. In March 2013, EDI introduced **Emperador Deluxe Spanish Edition**, a premium brandy imported from Spain that is created specifically to appeal to the Philippine palate. The sin tax regime on liquor, which started on January 1, 2013, leveled the playing field for imported liquors and provided a prime opportunity to introduce 'Emperador Deluxe' to the Philippine market. In July 2017, a game-changing **Emperador Hotshot®**, a brandy shooter spiced up in a fiery delicious cinnamon flavor delivering a smooth, sweet & spicy kick to start every party hot, was launched targeting the young and daring drinkers. Another innovative product was launched in October 2017, **Emperador Red®** which has the rich robust taste and smoothness of Emperador Light Brandy, but with a stronger alcohol kick at an affordable price. Our cellar masters aged this rich and extra smooth spirit to attain full body and aroma with golden dark color. This makes up a perfect drink to reward yourself on your everyday *tagumpay!* .

At the 2016 International Review of Spirits, organized by Beverage Testing Institute in Chicago, **Emperador Solera Brandy** won the silver award (highly-recommended), with added special recognition as "Best Buy", by garnering 89 points while Emperador Light received the bronze award (recommended) with 83 points. The "Best Buy" recognition is an added excellence award given only to the spirits or wines that provide uncommon value. Emperador is the only Filipino brandy to be included as one of the best brandies in the world with Solera and Emperador Light.

The premium and imported lines, **Emperador Deluxe Special Reserve** and **Emperador Grand Supreme** are sold exclusively at EDI's retail store.

**Andy Player Whisky**, a popular drink in the '80s, was revived in October 2015. The new whisky blend has a unique character, rich aroma and complex taste which include orange marmalade and maple syrup. In October 2016, **Andy Player Whisky and Cola** or Andy Cola, a ready-to-drink blend of refreshing cola and the smooth blend of Andy Player Whisky was launched in the Philippine market.

'**The BaR**', a flavored vodka and gin beverage was launched in 2009. 'The BaR' is marketed as a ready-to-serve flavored alcoholic beverage with low alcohol content. The gin comes in lemon-and-lime flavor while the vodka comes in orange, apple and strawberry flavors. In 2012, 'The BaR Cocktails Margarita' line was launched. 'The BaR' products are targeted to a younger demographic, specifically, the 18 to 35 year old age bracket. Another gin line was launched in 2018, '**The BaR Premium Gin**', infused with botanicals from Spain that gives it a delicious burst of flavor not found in local gin products. This world-class premium gin line comes in three variants: **Pink** with flavors of mixed berries, **Green** infused with lime flavors, and **Premium Dry** infused with imported botanicals. The BaR Premium Gin is not only far better but also different. It is dubbed as 'the gin for the new generation'.

'**Smirnoff Mule**', a ready-to-drink blend of Smirnoff Vodka, ginger beer, and lime, was launched on April 28, 2015. It is a classic iconic drink that delivers a smooth, full flavored refreshment with a unique ginger taste. It is known as 'Mule' because of its premium vodka, ginger beer and lime, creating a ginger kick effect. The "Stubbornly Refreshing" drink is being manufactured and distributed in the Philippines, under license from Diageo North America, Inc.

'**Raffa Sparkling**' is a delightful drink that has the elegance of sparkling wine with a fruity and refreshing finish. It only has 4% ABV making it a drink to be enjoyed by everyone. It is meant for leisurely lunches, extended dinners and long get-togethers. Raffa is made from the finest white grapes grown in Bodega San Bruno's very own vineyard along the scenic Tajo River near Toledo. The product was launched in to the Philippine market in December 2016.

'**Zabana Single Barrel Reserve Philippine Rum**', an EDI store exclusive. Since its release, this product was able to garner several awards: Gold Award for the 2016 Cathay Pacific Hong Kong International Wine & Spirit Competition, Gold Award in the 2017 Monde Selection, and Silver recognition in the International Spirits Challenge 2017.

EDI also imports and distributes the Group's products from the distilleries in Spain and Scotland. In 2015, EDI introduced 'The Dalmore', 'Jura' and 'Whyte and Mackay' variants at 700ml bottles in the local market in 2015. It also began distributing 'Fundador Brandy', the Philippine best-selling imported premium brandy, in March 2016 and launched locally 'Tres Cepas Light' in December 2016. EDI also started distributing 'Harveys Bristol Cream' and the newly developed '**Fundador Double Light**' in 2017.

EDI also distributes '**Pik-Nik**' brand shoestring potato snacks and **Ernest and Julio Gallo wines** from California, USA. The 'Pik-Nik' brand is owned by AGI Group.

**Scotch whisky** is Scotland's leading indigenous product and is now established as the leading international spirit drink, making it one of Britain's most important exports. It is a distilled spirit made (distilled and matured) in Scotland using *only* cereals, water and yeast. Most whiskies mature far longer than the legal minimum of three years, and the maturation period varies for different whiskies. The age statement on a bottle reflects the amount of time the youngest whisky in that bottle has spent maturing in a cask.

WMG offers Single Malt and Blended Scotch whiskies, liqueurs and vodkas, under the following key brands:

'**The Dalmore Single Malt Scotch Whisky**' sits at the apex of the category in which it competes. It is positioned as super premium and luxury brand. The Dalmore's 'To The Brave' proposition is built on a heritage that is rooted in the saving of King Alexander III of Scotland from being gored by a raging stag with a single arrow in 1263 by an ancestor of Mackenzie clan. The grateful king granted him the right to bear a stag's head in his coat of arms and so every bottle of The Dalmore is adorned with this noble emblem: a stag's head with twelve points to its antlers, signifying 'royalty'. The Mackenzie family ran the Dalmore distillery from the mid 1800's until Whyte and Mackay took over. It is considered the most revered single malt whisky in the world.

**'The Dalmore Principal Collection'** consists of six expressions positioned as Accessible (The 12, The 15, Cigar Malt Reserve, The 18, King Alexander III) and Aspirational (The 25). Positioned at the apex is **'The Dalmore Constellation Collection'** which is a rare ensemble of unique vintage single malts from the Highland distillery. 'The Dalmore' is renowned for rare editions that have sold for industry redefining prices, including the most expensive bottle ever sold in a retail store. The rare and aged collection includes The Dalmore 20 Year Old, The Dalmore 21 Year Old, The Dalmore 30 Year Old, The Dalmore 35 Year Old, The Dalmore 40 Year Old, The Dalmore 45 Year Old, and The Dalmore 50 Year Old, **'The Dalmore Quintessence'** is the first and only single malt whisky in the world with five red wine cask finish. Master Distiller Richard Paterson travelled to California to hand select the five different casks in which this exceptional whisky would be matured; Zinfandel, Pinot Noir, Syrah, Merlot and Cabernet Sauvignon, each bringing their individual nuances to create a totally unique single malt.

**The Dalmore Port Wood Reserve** is released in 2018 as an addition to the Core Range

**'Jura Single Malt Scotch Whisky'** is a premium Scotch whisky that is considered an accessible single malt whisky. It is produced at the only distillery on the Isle of Jura, a very remote island off the west coast of Scotland. This brand is built upon a captivating island environment that has two distinct sides, the wild, rugged west and the temperate east. Jura's uncommon nature is reinforced by the split production of both peated and unpeated malt whiskies in the same distillery, reflecting the two sides of the island. The Jura Rare collection offers one or two vintages every year, supported by a story, while the super-premium 'Milestones' offers a new release every few years. Its *"A long way from ordinary"* banner encapsulates the very special nature of this island single malt.

**Jura 12 Years** is an Asian exclusive. A modern classic aged 12 years. Reassuringly rich with smoky sherry sweetness. Matured in American white oak ex-bourbon barrels for 12 years and finished in Oloroso Sherry casks from Jerez, Spain. This 12-year old has refined succulent tropical aromas of chocolate, walnut, and citrus fruit. The exquisite taste is a medley of coffee, liquorice, salted bananas and brown sugar with a whisper of smoke in the finish.

**'Tamnavulin Single Malt Scotch whisky'** was launched in 2016, initially in the UK. The Tamnavulin Distillery was built in 1966 and was acquired by WMG in 1993. 'Tamnavulin' is the epitome of a Speyside malt; rich, smooth, elegant and refreshing. Tamnavulin is the Gaelic translation for 'Mill on the Hill,' named in part after the 16th century woollen mill which sits on the site of the distillery. This Speyside is double cask. Matured in American Oak Barrels and finished in Amoroso Oloroso Sherry casks for a rich, full-bodied, sweet and mellow taste. EDI started distributing this product in the Philippines in 2018. Tamnavulin Single Malt Scotch Whisky Vintage Collection rare range with expressions from the years 2000, 1979, 1973 and 1970, together with a new Tempranillo finish was launched in 2018 for Global Travel Retail.

**'Fettercairn'** comes from Fettercairn distillery which was founded in 1824 and acquired by WMG in 1973. The arch and the unicorn are two symbols that are heavily associated with the long history of the Fettercairn Distillery. Fettercairn Single Malt was relaunched in 2018 with a new packaging with the lead expression 12year old supported by a 28year old, a 40year old, and a 50year old, all four showcasing the iconic unicorn symbol.

**'Whyte and Mackay Blended Scotch Whisky'** is produced using a unique triple maturation process that ensures a smoother, richer taste.

**'Shackleton'** is the newest Blended Malt brand launched in 2017. It was inspired by a 1907 whisky which was extracted after 100 years under ice. A conservation team carefully extracted crates of whisky left behind by renowned polar explorer Sir Ernest Shackleton. Whyte and Mackay master blender Richard Paterson carefully selected 20 of the finest highland malts to recreate the antique whisky supplied to the British Antarctic Expedition. It has hints of vanilla, ginger and licorice on the nose, with a taste of demirara sugar, manuka honey and dried pineapples, and a whisper of bonfire smoke in the finish.

**'Glayva'**, a liqueur made from a blend of aged Scotch whiskies, a selected range of spices, Mediterranean tangerines, cinnamon, almonds and honey. It has a deep golden colour and a distinctive flavor.



'**Vladivar Vodka**' is a brand of vodka distilled in the UK. It is a Pure Grain, triple distilled, charcoal filtered vodka. Originally made in Warrington by the G & J Greenall distillery, the brand was sold in 1990 to Whyte and Mackay and is today bottled in Scotland.

**John Barr, Cluny** and **Claymore** are all blended Scotch whiskies, a combination of malt whiskies and grain whiskies from a number of different distilleries. The packaging of both John Barr and Claymore has recently been redesigned to enhance the consumer offering.

From **Bodegas Fundador**, the following iconic brands manufactured and distributed from Spain are under EMP Group beginning March 1, 2016:

From **Bodegas Fundador**, the following iconic brands manufactured and distributed from Spain are under EMP Group beginning March 1, 2016:

'**Fundador**' is a Brandy de Jerez, the brandy capital of Spain. Fundador means the founder, as it was the first Spanish brandy to be marketed, this happened in 1874 by Pedro Domecq Loustau. It is sold in over 70 countries worldwide, and the no. 1 imported premium brandy in the Philippines. The brand has an excellent range ending with the high premium brand '**Fundador Exclusivo**'.

'**Fundador Double Light**' is an exceptional spirit from sherry casks in our cellars in Jerez, Spain. It guarantees double smoothness and double satisfaction in every bottle. It is the ultimate expression of Fundador Light with a different concept. It has a double ageing profile and character that is an effect of the double casks.

'**Terry Centenario**' is the largest brandy in Spain. Centenario means centenary, and it evokes the change to the twentieth century when the Terry family started producing brandies in its bodegas in Puerto de Santa María. It is a premium and distinguished brand with the iconic net and the unique logo of the Terry Horse. '**Terry White**', a new expression, a new category, a new Classic "White Brandy" was born in 2017 to renew the brandy category in Spain by shaking the market through a modern concept of a white spirit. Through mixology platform, this disruptive concept was launched to a fashionable position for a spirit drink for a future halo of Brandy de Jerez.

'**Tres Cepas**' is a market leader in Equatorial Guinea. In the beginning Domecq had three brands, Una Cepa (One vine), Dos Cepas (Two vines) and Tres Cepas (Three vines), that were in increasing order of quality and age. It is a premium brand result of a special selection of wines distilled aged in sherry oak casks by the traditional Criadera and Solera system. In 1902 the brand Tres Cepas was launched in the market and starting to be a successful brand. The year 2016 was the renaissance of the brand in the Philippines, and a special expression of **Tres Cepas Light**, with a different concept and bottle, was launched in December at a very affordable introductory price. Tres Cepas Spirit is a delicate selection of wines distilled carefully aged in Bodegas Fundador's wineries in Jerez, smooth with mineral notes and beautiful amber tone. In 2017, '**Tres Cepas VS**' was launched. It is an ultimate expression, as the master blended carefully tasted the oldest soleras and selected barrels with special characters and notes to make a unique blend for this Very Special Tres Cepas.

'**Harveys**' is the number 1 selling Sherry Wine in the world and the leader in the UK. It is a recipient of twenty-four quality awards in 2015. It holds Royal warrant in UK which distinguishes it as the only sherry wine that can be served to the Queen in Buckingham Palace. It is also the unique Spanish Company that supplies to the Royal Household. This brand was registered in Bristol by the Harvey family in 1886 and was the first cream Sherry to be marketed. Harveys Bristol Cream is a unique blend of sherries combining the character and body of aged olorosos with the aroma and finesse of finos and amontillados.

'**Harveys Bristol Cream®**' is a proprietary blend of three sherry types: Fino, Amontillado and Oloroso, all created from the Palomino grape. It is clean and fresh, with spicy overtones. Crisp and elegant with fruity grape flavors, it is loaded with woody and nutty flavors, but remains mellow with velvety smoothness. "Everyday's A Holiday" with Harveys Bristol Cream®, taken alone or with fruit or used as ingredient to desserts and baking.

**'Harveys Very Old Amontillado 30-Year Old V.O.R.S'** was awarded the "The Best Wine in the World" by the International Wine Challenge (IWC), by bagging the Champion of Champions' Trophy 2016, while **'Harveys V.O.R.S. Palo Cortado'** was awarded in 2015 by the IWC as the "Best Sherry". Also in 2016, the International Wine & Spirit Competition (IWSC) awarded gold medals to **'Harveys Pedro Ximenez 30 Year Old V.O.R.S.'** and **'Harveys Rich Old Oloroso Sherry 30 Year Old V.O.R.S.'**

Harveys launched in 2013 an ultimate expression Signature by Harveys which is a 12-Year Old Cream Sherry, this product was awarded the silver medal by the IWSC in 2016.

From the ***Domecq brands of brandies and wines*** come these Mexican brandies: 'Presidente', the first Mexican brandy, 'Don Pedro', which has been more than 50 years in the market, and 'Azteca De Oro', which has been more than 36 years in the market. These brands are also distributed in USA. In Brazil, 'Domecq Brandy' is a strong brand which covers all market in Brazil.

Vendors may sell the products at higher or lower prices than EDI's suggested retail prices, depending on outlet margin requirements and their operating costs. The Government does not regulate the price of alcoholic beverages in the Philippines. However, manufacturers of alcoholic beverages in the Philippines are required to pay an excise tax on alcohol production based on the percentage of alcohol contained in the beverage and net retail price.

**MEG**

Megaworld's pioneering "live-work-play-learn" concept for integrated mixed-use communities, or commonly known as townships in the Philippines, has enabled it to launch more than 696 residential buildings, 63 office towers, 19 lifestyle malls and 21 hotels. "Townships" integrate lifestyle convenience of having high quality residences in close proximity to office, commercial, educational, and leisure and entertainment facilities. The strategy is to lease all commercial and retail properties and sell all residential units. A description of each of the group's 23 townships follows.





1. **Eastwood City** is the first township to implement the Company's "live-work-play-learn" concept. Its 18.50-hectare community property in Libis, Quezon City has 19 completed luxury condominium towers, 10 first-class corporate office buildings, and a modern IT park. The planning of Eastwood City adopts an integrated approach to urban planning, with an emphasis on the development of the Eastwood City CyberPark to provide offices with infrastructure such as high-speed telecommunications and 24-hour power supply that support BPO and other technology-driven businesses. The township provides education/training, restaurants, leisure and retail facilities and residences. It is currently home to more than 25,000 residents and 55,000 workers. Eastwood city is also home to the four-level Eastwood Mall — a shopping and dining destination which has been declared the "Best Shopping Center" by the Philippine Retailers Association. Eastwood City has three malls and around 500 commercial and retail shops. The Eastwood Richmond Hotel is located adjacent to the Eastwood Mall.
2. **Forbes Town Center** is located in a 5-hectare land in Bonifacio Global City, Taguig, Metro Manila adjacent to the Manila Golf Club, Manila Golf and Country Club, the prestigious Forbes Park residential subdivision and Dasmariñas Village. Forbes Town has 12 residential towers which house more than 3,500 residential units. Upon completion, Forbes Town Center is expected to consist of residential, retail and entertainment properties. The focal point of activity in the township is the aptly named Forbes Town Road, a retail strip with 37 restaurants and shops that cater to the diverse needs of the residents of the community's three Bellagio towers, six towers of Forbeswood Heights, two towers of Forbeswood Parklane, and the 53-storey Eight Forbes Town Road. This is connected to another Fort Bonifacio Landmark, Burgos Circle, a leisure spot with residential, condominiums and a small park.
3. **McKinley Hill** is located on approximately 50 hectares of land in Fort Bonifacio, Taguig City, Metro Manila. McKinley Hill consists of office, residential, retail, educational, entertainment and recreational centers. The residential zone consists of subdivision lots for low-density single-detached homes, clusters of low-rise residential garden villas and residential condominiums. The office properties will include the McKinley Hill Cyberpark which is a PEZA-designated IT special economic zone. Tenants of the office properties will largely comprise of software developers, data encoding and conversion centers, call centers, system integrations, IT and computer system support. The leisure and entertainment zone will consist of bars, restaurants, specialty shops, cinemas and sports complex. Three international schools, the Chinese International School, the Korean International School and Enderun College, a hotel management institution affiliated with *Les Roches* of Switzerland, comprise the "learn" component of the township. McKinley Hill is also home to the British Embassy and the Korean Embassy.
4. **Newport City** is a township located on 25 hectares of land at the Villamor Air Base, Pasay City, Metro Manila, across from the NAIA Terminal 3 and adjacent to the Villamor golf course. It will be targeted towards tenants and buyers who consider proximity to the NAIA Terminal 3 an advantage. The residential zone consists of eight to nine-storey medium-rise buildings. The corporate zone comprised of office buildings. The leisure and entertainment zone consist of bars, restaurants, retail and tourist oriented shops, which are designed to complement the office and residential buildings in the community township. Newport City is home to **Resorts World Manila** which is a leisure and entertainment complex comprising gaming facilities, restaurants, hotels and shopping outlets. The hotel zone comprises the Marriott Hotel, Marriott West Wing, Maxims Hotel and Holiday Inn Express Hotel under Travellers; and Belmont Luxury Hotel and Savoy Hotel which are condotel projects of Megaworld. Travellers and its subsidiaries are set to add three global hotel brands, the Hilton Manila, the Sheraton Hotel Manila and Hotel Okura Manila. Newport City also features Travellers' Marriott Grand Ballroom project, a meetings, incentives, conventions and exhibitions facility. Newport City is registered with PEZA as a Cyber Tourism Special Economic Zone.
5. **Uptown Bonifacio** is being developed in an approximately 15.4-hectare property in Fort Bonifacio in Taguig City, Metro Manila. Modeled after the most progressive cities around the world- Paris, London, Milan, New York and Tokyo, Uptown Bonifacio is comprised of a residential portion in the northern part of Fort Bonifacio, and a portion for mixed-use, comprising office and retail space. Set in the heart of Fort Bonifacio, the township will be close to several of the new CBD's popular landmarks such as Forbes Town Center, Burgos Circle, the Mind Museum, Bonifacio High Street, and The Fort Strip. It is also within close proximity to St. Luke's Medical Center and the institutional zone. The township is easily accessible via Kalayaan Avenue, C-5 Road and EDSA. It has its own high-end commercial center, Uptown Place Mall.

6. **McKinley West** is an “ultra-high-end” township being developed on a 34.5-hectare portion of the JUSMAG property in Fort Bonifacio which is directly beside Forbes Park and Manila Polo Club and across McKinley Hill in Taguig, Metro Manila. The development of McKinley West is another joint venture undertaking with BCDA. McKinley West will have rows of luxury residential estates, some of which will have their own swimming pools and other amenities. The upscale residential enclave will be supplemented by a modern business district of sustainable office buildings, an international school, and a chic commercial centre. These will all be complemented by open spaces and lush greenery. Ingress and egress points of the estate are conveniently located along Lawton Avenue which connects Fort Bonifacio to Pasay City and Makati City.
7. **The Mactan Newtown** is Megaworld’s first township venture outside Luzon, Mactan Newtown is a mixed-use development situated on a 30-hectare property near Shangri-La’s Mactan Resort and Spa in Mactan, Cebu. This has its own beach and combines high-end office towers, luxury condominiums, leisure amenities, retail shops, a school, and upscale hotels. It will also have its own exclusive beach club at the township’s beachfront, and sports facilities at the 11-hectare beachfront property formerly known as Portofino Beach. It is also near the Mactan-Cebu International Airport, making the township ideal for residence, business or leisure. The first phase of the project is expected, on completion, to comprise high-tech BPO offices, and retail centres, luxury condominiums, leisure facilities and beach resort frontage. The Mactan Newtown is approximately 10 minutes away from the Mactan-Cebu International Airport, the Philippines’ second largest airport. The Mactan Newtown will also have five hotels, two of which are at the beachfronts.
8. **Iloilo Business Park** is a mixed-planned community in a 72-hectare property in Mandurriao, Iloilo. Upon completion, it will be a mixed-use business, tourism, commercial and residential hub with a residential community, BPO office buildings, hotels, a convention centre, retail centres and a lifestyle centre. The entire Iloilo Business Park development was registered as a special economic zone with the Government, which allows it to benefit from a tax holiday period as well as other incentives for investors. It also features The Street of Festive Walk, a 1.1-kilometre retail strip inspired by outlet shops in America and envisioned to be one of the longest shop-and-dine streets outside of Metro Manila. Iloilo Business Park has launched three residential condominium developments to date — One Madison Place Luxury Residence, Lafayette Park Square and The Palladium, the tallest building in the region at 22 storeys high. With Iloilo Business Park, Megaworld aims to transform Western Visayas into the next central district in the region.
9. **ArcoVia City** is envisioned as an environment-friendly community on the 12.3-hectare property located along the C-5 Road in Pasig City. A main “green” feature of the township is the approximately 1,000 trees that will be planted around the development. This greening feature will help provide an outdoor thermal comfort for the future residents, workers, tenants and visitors of the township. Sustainable buildings registered under Leadership in Energy and Environmental Design (LEED) are the standard of office developments in this township, with the first two to rise designed by world-renowned architectural firm Skidmore, Owings & Merrill. Other green features of ArcoVia City include a rainwater catchment facility, a network of bicycle lanes, and wide tree-lined sidewalks. Aside from office towers, the township will have residential condominiums, a lifestyle mall, retail and commercial strips, and open parks.
10. **Davao Park District** is the first township development in Mindanao. It is situated on an 11-hectare property along S.P. Dakudao Loop in Lanang, Davao City, which used to be the Lanang Golf and Country Club. The township is envisioned to be the Mindanao’s new central business district by being a center for BPO and other corporate entities over the next seven years. Also in Davao Park District are the themed residential condominiums that will be built by Suntrust, a wholly-owned subsidiary of Megaworld. The township will also have a lifestyle mall, commercial and retail strips, open parks, a lagoon, and a school. The first office tower to rise is the iconic 15-storey Davao Finance Center. The first tower in One Lakeshore Drive, a 4-tower condominium cluster, started selling in 2014. Two Lakeshore Drive started selling in 2017.

11. **Suntrust Ecotown**, an ongoing project under Suntrust, will sit on a 350-hectare land in Tanza, Cavite and will be Megaworld's first mixed-use development with an industrial park in the country. The industrial park is the country's first to be accredited by PEZA with lifestyle amenities. It is also positioned to be the major hub for world-class light to medium export-oriented industries, residential, commercial, and institutional establishments in the south. At Suntrust Ecotown, 111 hectares will be allotted for the industrial park. Another 40 hectares is dedicated for the expansion of the industrial park and the integration of lifestyle amenities such as a hotel, commercial and retail hubs, driving range, mini golf course, putting greens, swimming pool, jogging path, basketball and badminton courts, and open parks, and another 200 hectares of future development that may include residential and other recreational facilities.
12. **Boracay Newcoast**, an ongoing project under GERI, is a 150-hectare mixed-use leisure and resort development envisioned to be the next world-class tourism destination in the paradise island. Soon to rise in the tropical tourism development are luxury and boutique hotels, commercial and retail district, upscale villas, and an exclusive residential village. Among the first residential towers to be built here is Oceanway Residences, a cluster of mid-rise condominiums offering views of the Sibuyan Sea, Mt. Luho, the island's highest peak, as well as the Fairways & Bluewater Golf Course. Aside from Oceanway Residences, among the upcoming projects here include four hotels and an Ibiza-inspired commercial and retail strip.
13. **Twin Lakes**, an ongoing project under GERI, is a 1,300-hectare mixed-use leisure and resort community in Tagaytay. The tourism estate will feature the best of Europe at the first residential cluster called The Vineyard Residences, which is comprised of three mid-rise condominium towers: Shiraz, Merlot, and Chardonnay. Twin Lakes also has a unique mixed-use community development called The Vineyard, which spans 177-hectares of natural landscape that offers the perfect view of the famous Taal Volcano and the man-made lake within the estate. The Vineyard will have its own sports club and spa, wedding venue, and the 10-hectare vineyard that will produce real grapes that can be processed, stored, and aged in a very own chateau. The township will also have commercial and retail hubs (The Village and Lakeshore Town Center), a university park, as well a nature park. Other developments in Twin Lakes include a retirement community, wellness centre, hotel, among others.
14. **Southwoods City** is the largest and only fully-integrated township with a golf course at the south of Metro Manila. The 561-hectare property is a mixed-use development that features the Jack Nicklaus-designed Manila Southwoods Golf and Country Club, a central business district, a mall, schools, a church, and a medical facility, among others. It is conveniently accessible via the South Luzon Expressway. Within Southwoods City is Pahara, a 26-hectare residential village consisting of over 600 lots, each offering a view of the golf course and the Laguna de Bay. This residential village has a Mediterranean-inspired architectural theme with green open spaces and its own clubhouse, swimming pool, function halls, children's playground, an outdoor circuit gym, and parks.
15. **Alabang West** is a 62-hectare township located at the heart of Alabang's leisure, business and commercial district. It is easily accessible to and from Metro Manila via the South Luzon Expressway and the Daang Hari Exit. Alabang West has a 1.3-kilometre commercial and retail row inspired by Hollywood's famous Rodeo Drive and an exclusive Alabang West Village that features over 700 residential lots. The village will have a clubhouse with badminton and basketball courts, function rooms, game room, a fitness centre, and an infinity pool.
16. **The Upper East** sits on a 34-hectare property in Bacolod City, Negros Occidental and is bound by Burgos Avenue on the north, Lopez Jaena Street on the west, the Circumferential Road on the east, and is just across the New Government Center. Modeled after New York City's Upper East Side district, its prime location is geared to be Bacolod's own version of an upscale lifestyle district where residential condominiums, malls and commercial centres, BPO office towers, tourism and leisure facilities as well as recreational parks and open spaces are integrated to create a "Live-Work-Play" township.

17. **Northhill Gateway** will rise in the northern part of Bacolod. Sitting on a 50-hectare property along the new Circumferential Road on the boundaries of Talisay City and Bacolod City, it has direct access to the new Bacolod-Silay Airport and will have a direct link to The Upper East via the Circumferential Road. Northhill Gateway is envisioned to be a refreshing lifestyle district that will house upscale residential villages, mixed-use office and retail developments, leisure and recreational amenities as well as institutional facilities. Megaworld is constructing a 'commercial town center' on the Bacolod side of the Northhill Gateway township, the Northhill Town Center. This will occupy around 7.5 hectares and will be a sprawling horizontal commercial development composed mostly of stand-alone two-storey structures of retail shops and dining establishments, surrounded by landscaped parks and open spaces. The town centre, which will be accessible along the Bacolod-Silay Airport Access Road, will also have a central plaza, an events venue, 'pasalubong' centres featuring local Negrense delicacies, a supermarket, and wellness and sports facilities.
18. **Sta. Barbara Heights**, a masterplanned community of GERI, is a 173-hectare mixed-use development with 34 hectares allocated for residential lots overlooking nearby natural lake and hills in Sta. Barbara Iloilo. The township is adjacent to the historic Santa Barbara Church and Convent and the Iloilo Golf Course and Country Club, the oldest golf course in Asia. Sta. Barbara Heights will have a direct access to the road leading to the Iloilo International Airport via the Iloilo International Avenue, a six-lane "spine" highway featuring rows of mixed-use and commercial buildings, retail shops, restaurants, boutique hotels and institutional facilities. Half of the development is allocated for the Sta. Barbara Heights Residential Estates, a residential village with three phases offering around 1,000 lots. The village will feature a five-hectare Village Center with amenities that include a 260-metre swimming pool, tennis and basketball courts, children's park and picnic ground overlooking a lake beside the Iloilo Golf and Country Club.
19. **Capital Town** is a 35.6-hectare prime property beside the provincial capitol of the City of San Fernando, Pampanga and is the fourth township launched by Megaworld in 2015. It is just 70 kilometers away from Metro Manila and accessible via the North Luzon Expressway and the Jose Abad Santos Avenue, also known as the Olongapo-Gapan Road. It is also around 20 kilometres away from Clark International Airport and will comprise of residential, office, commercial, and institutional components. It will be home to residential and BPO office towers, civic and institutional facilities such as a school, amphitheatre and event venues, mall and retail hubs, hotel and a shophouse district that highlights neo-classical and art deco architecture. 25% of the entire township will be devoted to green and open spaces, including road networks.
20. **Westside City** will be the second site of Resorts World Manila in the Philippines. The 31-hectare leisure and entertainment township at the Entertainment City in Parañaque will have international hotels, a luxury mall, and residential condominiums. The launch of Westside City marked the Company's 20th integrated urban township, the most by any developer in the country. The township will also be home to upscale residential condominiums, a luxury mall as well as international hotel brands such as The Westin Hotel of the Starwood Asia Pacific Hotels & Resorts Group, Hotel Okura Manila of the Okura Hotels & Resorts, the Gentring Grand and Crockfords Tower of the Genting Group, and Kingsford Hotel. These hotels will have a total of around 1,500 rooms. Westside City highlights facilities for the performing arts and will be home to the Philippines' Grand Opera House that has a total capacity of 3,000.
21. **Maple Grove**, the Megaworld's 21st township, is a 140-hectare property in General Trias, Cavite. This property will be developed into another mixed-use development. The property is approximately 45 minutes away from Makati and other Metro Manila CBDs via Coastal Road and Cavitex, Maple Grove is at the entry point of the booming industrial and residential centre of the Cavite-Batangas corridor. The company is allocating P10 billion in the next 10 years to develop Maple Grove. The township will have an eclectic mix of residential, retail, office and institutional components.
22. **Eastland Heights**, an ongoing project under GERI, will be an 'integrated lifestyle community' in Antipolo, Rizal on a 640 hectares of land along Marcos Highway with some areas overlooking Metro Manila's panoramic skyline. The property has its own iconic 36-hole golf course and country club, which will occupy around 20% of the entire development. It is also known for its rolling terrains on the foot of the scenic Sierra Madre Mountain Range. GERI is spending P5 billion to develop Eastland Heights in the next five to seven years. Aside from the golf course, the community will have residential, commercial and retail, and institutional components such as a school.

23. **The Hamptons Caliraya**, the second 'integrated lifestyle community' under GERI, is located in Lumban-Cavinti, Laguna, surrounding Lake Caliraya. Through GERI, Megaworld has allocated P8 billion in this 300-hectare development in the next 10 years. The development will feature leisure and tourism developments including lakeside residential villages and villas, a town centre, two 18-hole golf courses and clubhouse, and a Marina Club that offers a wide range of water sports activities such as boating, jet ski and kayaking, as well as a shophouse district and resort hotel district. The development will also be the site of The Hamptons Village, an 11-hectare lakeside residential village that will feature its own marina.

The GERI group has a diversified real estate inventory including residential and commercial lots, residential condominium units, condominium hotel units, and golf club shares. These include the following:

1. **Boracay Newcoast** is the first and only tourism estate development with world-class resort offerings in the northeast side of Boracay. It sits on 150-hectare of land and will house a private residential village, specialty boutique hotels, shop houses and a massive commercial center called Newcoast Station and international hotel brands. Its Fairways & Bluewater Newcoast, a premier luxury eco-friendly vacation hotel, has over 250 well-appointed guestrooms, each with a spectacular view of an 18-hole par-72 golfcourse, the only one in the island. Fairways & Bluewater features three private white sand beach coves. (see under townships).
2. **Twin Lakes** is the first and only vineyard resort community in the Philippines, located in the rolling terrains of Tagaytay overlooking the world-famous Taal Lake. The master-planned integrated tourism estate that sits on a 1,182-hectare property will feature real vineyard and chateaus, residential condominiums and villages, hotels, nature park as well as commercial and retail hubs. The Vineyard, a 69-hectare mixed-used phase will host a hotel and resort, sports club and spa, culinary school, residential condominiums and a traditional wine chateau for aging the vintage produce – all with the views of the vineyard and man-made twin lakes. (see under townships).
3. **Forest Hills** is a 500-hectare integrated development in Antipolo, Rizal which includes residential and commercial lots, an aqua park, two 18-hole golf courses and a community clubhouse.
4. **Mountain Meadows** is 260-hectare residential subdivision in Cagayan de Oro with a 4-hectare commercial area at the entrance of the project.
5. **Sherwood Hills** is a 350-hectare integrated development in Trece Martires, Cavite that will include residential lots, a 27-hole golf course and other facilities.
6. **Newport Hills** is a 127-hectare integrated residential and golf development in Lian, Batangas.
7. **Sta. Barbara Heights** is a vast township rising on a 170-hectare property beside the Sta. Barbara Golf Course, known as Asia's oldest golf course, located in Sta. Barbara, Iloilo. It will be home to residential villages, condominiums, office towers, a mall, and commercial and retail centers. (See under townships).
8. **Southwoods City** is a 561-hectare mixed-use development with golf course situated on the boundaries of Biñan, Laguna and Carmona, Cavite. (See under townships).
9. **Alabang West** is a 62-hectare residential and commercial development in Las Piñas City. (See under townships).
10. **Eastland Heights** is a township development along a 640-hectare of land along Marcos Highway with some areas overlooking Metro Manila's panoramic skyline. (See under townships).
11. **The Hamptons Caliraya** is a 300-hectare sprawling community surrounding Lake Caliraya in Lumban-Cavinti, Laguna. (See under townships).

ELI's real estate portfolio is composed of multi-cluster mid- to high-rise condominium projects and multi-phase subdivision developments in key locations in Metro Manila and the South. ELI set the trend for transit-oriented developments ("TOD") where condominium communities are directly linked to mass-transit systems for faster and more efficient mobility in the metro. ELI's portfolio also includes ready-for-occupancy ("RFO") units available in its various high-rise development projects in Metro Manila. These include the following:

1. **Laguna BelAir** is ELI's flagship township project located outside of Metro Manila. The 156-hectare horizontal development in Sta. Rosa, Laguna is a complete community setting featuring several residential phases with American-inspired homes, commercial blocks, recreational amenity zones, a science-oriented school and a parish church. The project has spearheaded various residential and commercial developments in Santa Rosa City which is now dubbed as the "New Makati City of the South."



2. **The Sonoma** is the second township project outside Metro Manila. It is a 50-hectare horizontal development in Sta. Rosa City, Laguna that features Asian Modern-inspired homes. The community is centered by a five-star clubhouse complete with luxurious swimming pools, open courts, function rooms and other recreational facilities. Towards the main gate of the development is 1433 West Row, a retail strip that will feature high-end shops, restaurants and other establishments. The four residential phases, Enclave, Country Club, Pavilion and Esplanade, have completed its land development. Buyers have started building their houses while only a few lots for sale remain.
3. **The Cambridge Village** along East Bank Road in the boundary of Pasig City and Cainta, Rizal, is the ELI's largest residential development in scale to date. This 37-tower mid-rise community on an 8-hectare land offers approximately 5,200 units targeted to the broad middle-income market segment is nearing completion with few units left for sale. Selected towers have ground-level retail shops, providing basic needs of residents for consumer goods and wellness services. The construction of the last three towers is almost completed.
4. **The Rochester**, a tropical-inspired urban resort community at Elisco Road, San Joaquin, Pasig City, will have seven Asian Modern towers set to rise on a 3-hectare property. Because of its proximity to the C5 Road and Kalayaan Avenue intersection, it is highly accessible to the Bonifacio Global City. The low-rise Garden Villas 1 and 2 and the mid-rise Breeze Tower and Parklane Towers have been completed and sold out. The residents of the RFO towers are currently enjoying the clubhouse with function areas, min-bar, fitness gym, 25-meter lap pool, kiddie pool and a multi-purpose court. Palmridge, Hillcrest Towers and Bridgeview Towers are under pre-selling, in full-swing construction and set for turnover from 2019 to 2021.
5. **San Lorenzo Place** is a luxurious 4-tower high-rise development on a 1.33-hectare property along EDSA corner Chino Roces Avenue, Makati City standing on a podium with an upscale shopping mall directly linked to MRT-3 Magallanes station. The project offers an unparalleled luxurious city lifestyle in the Makati CBD with high-end amenities such as swimming pools, tennis court, fitness gym, jogging paths, gardens, function room, daycare center and clubhouse at the sixth level. All four towers have been completed and sold out.
6. **Pioneer Woodlands** is a prime 1.27-hectare development that offers a transit-oriented lifestyle to its residents as it is connected directly to MRT-3 Boni station. It is located along EDSA corner Pioneer Street in Mandaluyong City, close to Ortigas and Makati CBDs, making it a preferred address of end-users and investors. The project has 6 high-rise towers, recreational amenities at the 5th level, and a two-level retail arcade. Towers 1, 2, 3 and 4 have been completed and sold out, while Towers 5 and 6 are under pre-selling stage, slated for turnover by 2020 and 2022, respectively.
7. **Little Baguio Terraces** is a 4-tower TOD mid-rise condominium community on an 8,000-square meter property along Aurora Boulevard and N. Domingo Street, San Juan City. This TOD is between Gilmore and J. Ruiz station of LRT-2, offering a quick access to the University Belts in Manila and Quezon City. Amenities at the 3rd level such as lap pool, kiddie pool, jacuzzi, jogging path, playground, fitness gym, daycare center and function area can now all be enjoyed by its residents. Towers 1, 4, 3 and 2, in sequence of turnover, are now ready-for-occupancy with few units left. Homeowners can experience quality city living through recreational amenities at the podium level, featuring a swimming pool, kiddie pool, jacuzzi, jogging paths, playground, daycare center and pocket gardens.
8. **Kasara Urban Resort Residences** is located between Eagle Avenue and P. E. Antonio Street near C5 Road in Ugong, Pasig City, features six high-rise towers with world-class resort-type amenities including a lake-inspired pool, infinity pools, waterfalls, bubblers and koi ponds, clubhouse with function hall and bar area, multi-purpose court, fitness gym, playground, jogging paths, and greeneries which are all dedicated to almost 65% of its 1.8-hectare property. The project's proximity to Ortigas CBD, Eastwood City and Bonifacio Global City, makes it a top choice for both investors and end-users. Tower 1 has been completed with few units left for sale, Towers 2 is expected to be finished in 2019, while Towers 3 and 5 are in full-swing construction. Towers 4 and 6, with brisk sales, shall commence construction soon.
9. **South Science Park** is a 51-hectare property in Gimalas, Balayan, Batangas that is intended for mixed-use development.
10. **Mango Tree Residences** is an elite, exclusive two-tower high-rise community situated on a 3,000-square meter property along M. Paterno and J. Ledesma Streets in San Juan City. Natural mango trees, landscaped gardens, and hotel-type amenities will all be located at the spacious ground level as the podium parking will be standing on stilts, providing free flow of air and natural sunlight. West Residences is under-preselling and construction has just started while East Residences was launched last year and with more 50% take up to date.

11. **Covent Garden** is two-tower development on a 5,000-square meter property located along Santol Street Extension in Santa Mesa, Manila walking distance to LRT-2 V. Mapa station, offering ultimate accessibility to the University Belts in Manila and Quezon City. Other transportation options such as jeepneys, city buses, and rail transits are also available within the area. The project promises an urban sanctuary and escape from the city through its various recreational amenities at an elevated level. South Residences which is more than halfway completed and North Residences which is in the initial stage of construction are scheduled for turnover by 2020 and 2022, with few remaining units left for pre-selling.
12. **The Paddington Place** is the Company's latest offering in its portfolio of transit-oriented developments. The four high-rise towers on a 8,700-square meter property with the first two levels becoming a lifestyle shopping mall and 7th level an amenity zone. Future residents can easily walk towards the MRT-3 Shaw Boulevard station and the Ortigas CBD across EDSA. Aspiring homebuyers can choose from executive studio, 1-to-2-bedroom units, and penthouse suites. Tower 1 that comes with 645 units is 71% sold already.

SPI's projects provide affordable homes in well-planned and secured community developments. Its communities feature commercial centers, clubhouses and other amenities, schools and 24-hour security. These include the following:

1. **Cybergreens** is a one-of-a-kind community in Cavite that offers a perfect balance of modern convenience and nature. It is a community with broadband-ready garden villa and where residents can go online outdoors via Wi-Fi access.
2. **Cyberville** is located inside Sunrise Hills Subdivision in Brgy. Santiago General Trias, Cavite which is a modern community that's equipped with technology like Wi-Fi hotspots. It comes with amenities like flower, botanical and rock gardens, free playgrounds, court and a clubhouse where residents can celebrate their intimate family affairs.
3. **The GenTri Heights** blends Eastern serenity with western comfort and offers easy access to first-rate schools, retail hubs to top industrial zones in Cavite.
4. **Governor's Hills** is a Californian-Mediterranean-style homes with choices such as Jazmine, Sophia, Ysabella, Katrina and Casa Verona that also comes with beautiful amenities. Governor's Hills also offer good education for students through its very own Governor's Hills Science School.
5. **Rivabella** is a landscape community located in Sherwood Hills beside the golf clubhouse in Trece Martirez, Cavite that makes use of an Italian concept for its spacious, well-designed homes. Residents of Rivabella can enjoy the various shared amenities that the community has inside Sherwood Hills such as swimming pool, sporting goods, mini golf course, bar area, gazebo, parks and playgrounds.
6. **Suntrust Sentosa** is a two-phased residence in Laguna that's inspired by the popular island resort in Singapore. It boast not only one but two Merlion replicas in its community façade.
7. **Suntrust Verona** is located in Silang Sta. Rosa which is inspired by its namesake, the Italian City of Verona. It is a 63-hectare enclave that is made up of three residential phases and showcases a variety of single-detached duplex homes-all exquisitely designed and embraced by lush nature spaces.
8. **Sta. Rosa Heights** is composed of Spanish –themed homes that also comes with a 20,030square meter leisure area that includes a clubhouse named Vista del Santa Rosa, Lagoon type pool, basketball court, jogging lanes and children's playground.
9. **The Mandara** is an Asian-inspired community near Tagaytay that transforms into a gateway leading to the best of Sta. Rosa, Laguna.
10. **Siena Hills** is an Italian-themed community that's peacefully nestled in P. Torres, Lipa City.
11. **The Fountain Grove** is a residential enclave located inside Megaworld's township development, North Hill Gateway. It is the perfect balance between contemporary design and lush nature.
12. **The Palm City** is located in Tagum that comes with meticulously designed amenities which includes a cabana, a clubhouse, a main entrance gate with a guard's house, resort type swimming pool layout and a wedding pavilion which can be used for any type of event.
13. **Suntrust Shanata** is a condominium project located in Novaliches, Quezon City.
14. **Suntrust Asmara** is a three-tower condominium community with a low-density design located along E. Rodriguez Avenue. It is also the future home of PBB Otso Big winners.
15. **Suntrust Amadea**'s location in the contry's former capital lets its residence enjoy matchless accessibility to the metro's business districts, prestigious schools and institutions.



16. **Suntrust Capitol Plaza**, which is located in Diliman which is the heart of southern Quezon City rise 33 stories and is one of the tallest residential structures as is now emerging as a landmark. It comes in two residential wings designed in the 1920s Palazzo style with a façade enlivened by cornices and corbelled arches and a lobby with a circular foyer with columns and a grand, sweeping staircase.
17. SPI also developed condominiums in Manila namely **Suntrust Adriatico Gardens**, **UN Gardens**, **Suntrust Parkview** which is a premier residential community in the heart of Manila that's close to business hubs, recreational areas, hospitals and academic institutions and **Suntrust Solana** which is a two-tower condominium that's modern contemporary inspired.
18. **Suntrust Treetop Villas** was developed in the low-dense community of Madaluyong City.
19. **Suntrust 88 Gibraltar** is situated in the heart of the country's Summer Capital. This Mediterranean inspired condo community offers its residents unrivaled accessibility to Baguio City's key destinations for business, education, recreation, and leisure. With Suntrust 88 Gibraltar is **The Mist Residence** gifted with multitude of charming and profound beauty with a scenic view.
20. **One Lakeshore Drive** is a Davao condominium that brings together the serenity of a lifestyle by the lake and the vitality of Mindanao's first-ever live-work-play-learn township.

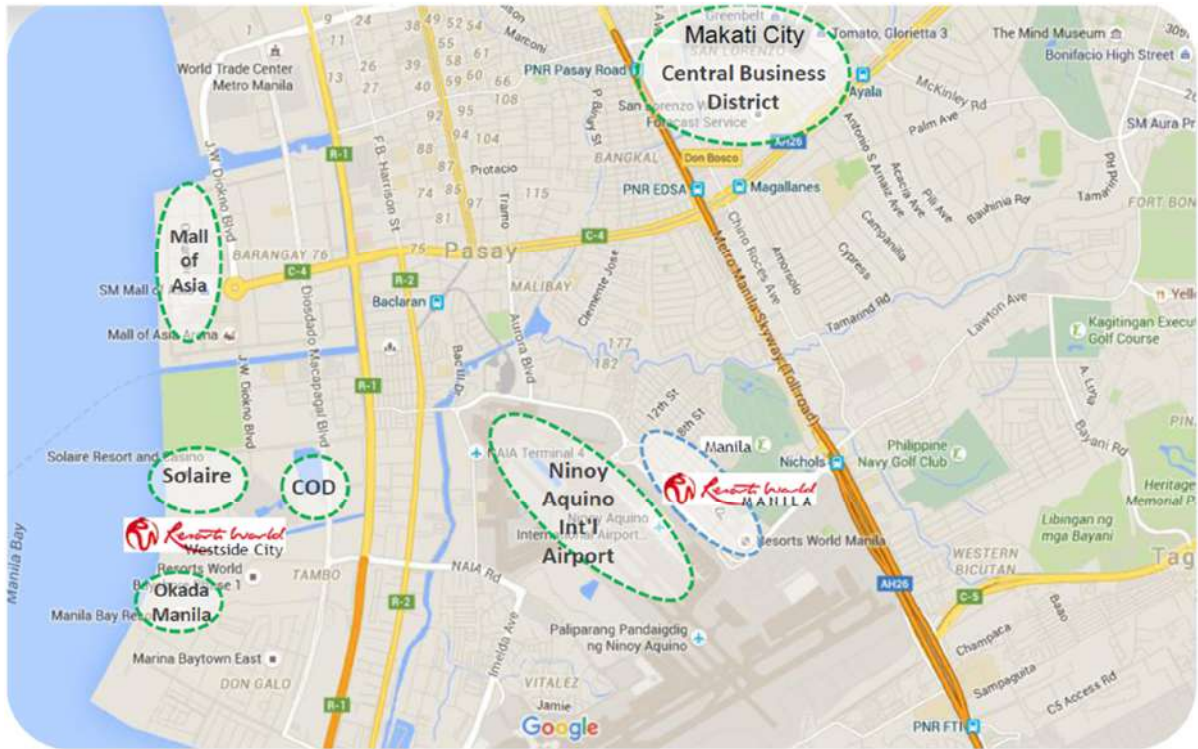
### Travellers

**Resorts World Manila** ("RWM"), Travellers' first integrated leisure and lifestyle complex, combines hospitality, entertainment, leisure, shopping and gaming in one grand arena, a one-stop non-stop destination. RWM operates a two-storey gaming facility, which includes the Genting Club (a members-only lifestyle club, with a private gaming area, dining options and other fabulous lifestyle features), and additional gaming halls thru Holiday In Express Manila Newport City (formerly Remington Hotel), and partial opening of Grand Wing ground floor gaming area, with an aggregate area of 25,219 square meters. As of the end of 2018, RWM has 299 casino tables and 1,882 slot machines/electronic gaming machines (EGMs). RWM also features the upscale Newport Mall (95 retail stores and food-and beverage outlets with a mix of high-end boutiques and mass market option), Newport Cinemas (24 hours on weekends), the 1,500-seat Newport Performing Arts Theater (a majestic venue for concerts, plays, musicals and exclusive productions), the GameZoo arcade, an office space (which features a training academy and a 400-seat capacity call center) and hotels.

Five hotels are currently in operation at RWM - the five-star 570-room Marriott Hotel Manila, the 172-all-suites Maxims Hotel, and the mid-range 712-room Holiday Inn Express Manila Newport City (formerly Remington Hotel), and the newly opened 357-room Hilton Manila and 390-room Sheraton Manila Hotel. Opening outside Metro Manila is Courtyard located in Iloilo City which provides an additional of 326 rooms to the Company's hotel operations.

RWM also boasts of the newly opened Marriott Grand Ballroom, a MICE venue with a 3,000-square meter pillar-less ballroom. It is the largest and most versatile luxury space within Metro Manila and has taken center stage as the preferred venue for conventions and social affairs including internationally acclaimed performances, making full use of the impressive high-tech column free ballrooms. The facility holds 20 individual meeting rooms and its ballroom features 6 VIP multi-use skyboxes, offering a large array of flexibility in hosting multiple events.

Location map of the two RW sites



### GADC



**McDonald's** is one of the best-known global brands. All McDonald's restaurants in the Philippines are operated either by GADC or by independent entrepreneurs under a sub-franchise agreement or by affiliates under joint venture agreements with GADC. The McDonald's System in the USA is adopted and used in the domestic restaurant operations, with prescribed standards of quality, service and cleanliness. Compliance with these standards is intended to maintain the value and goodwill of the McDonald's brand worldwide.

McDonald's restaurants offer varied menu of uniform and quality products, emphasizing value, fast and courteous service and convenience. The menu includes the McDonald's 'Global Icons' of beef burgers (Big Mac, Quarter Pounder with Cheese, Cheeseburger, World Famous Fries), 'Local Favorites' that cater to Filipino taste (Chicken McDo, McSpaghetti, Burger McDo) and McCafe specialty espresso-based coffee products. The Philippine menu is designed to appeal to a diverse target market across all ages.

Aside from new dishes being introduced regularly, dessert kiosks, McDelivery, Drive Thru and McCafe are innovations that speak how GADC listen to the needs of its customers.

#### **Pik-Nik**

Pik-Nik is an all-American fresh-fried potato snack line that includes Shoestring Potatoes, Fabulous Fries, Ketchup Fries, Less Salt, Sea Salt and Vinegar, and other delicious potato snacks manufactured and distributed internationally from USA by a wholly-owned subsidiary of AGI. Pik-Nik is the market leader in shoestring potato snack in the USA and is made with no preservatives or artificial ingredients. The products are packed in resealable, foil-lined canisters so they stay fresh and crunchy right to the bottom of the can. These canisters, along with the specialized ingredients and production process, give the products excellent shelf life. Pik-Nik also has Cheese Curls, Cheese Balls, and French Fried Onions. Pik-Nik has been in the market for 75 years since it was first introduced in the USA in the 1930s in San Jose, California. Pik-Nik is being manufactured in the USA and sold both in the USA and abroad, with Philippine distribution under EDI.

#### ***b.2. Foreign Sales***

##### **EMP**

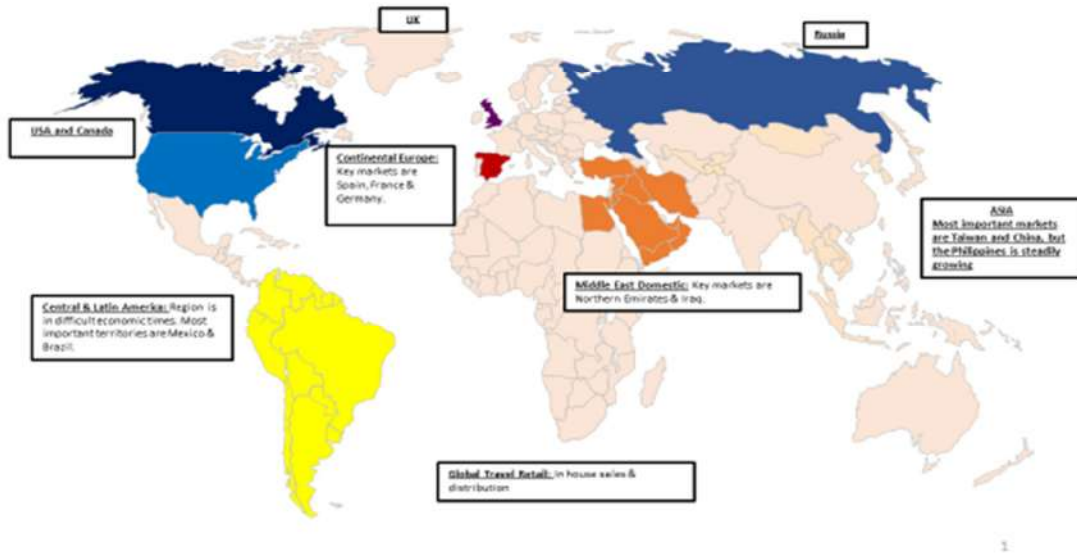
Export of the Emperador portfolio to the United Arab Emirates, West/East Africa, Qatar, Italy, Eastern Europe, Cambodia, Macau, Hong Kong and North America has been steadily growing due to the increasing demand of the Filipino community living and working in the said markets. EMP attributes its leading position to: (i) strong brand equity gained through brand building; (ii) targeted marketing; and (iii) local distribution network and, now a global reach.

Whyte and Mackay's overriding objective is to operate as a global branded drinks company which delivers sustainable rates of growth and returns that increase overall shareholder value. The Group operates in the UK and increasingly in international markets including the Travel Retail sector. International accounts for more than 60% of revenues. More than 40% of brand revenues come from UK and other European countries and around 23% from Asia and the Pacific, with the balance coming from the Middle East and Americas. Whyte and Mackay continues to invest across the business for future growth. It maintains a strong level of Strategic Marketing support across its expanding brand portfolio and increased its commercial resources in key disciplines and geographies. Moreover, Whyte and Mackay invested in the assets of the business to improve efficiency and flexibility and has continued to invest in barrels, ensuring its spirit quality remains at the highest levels

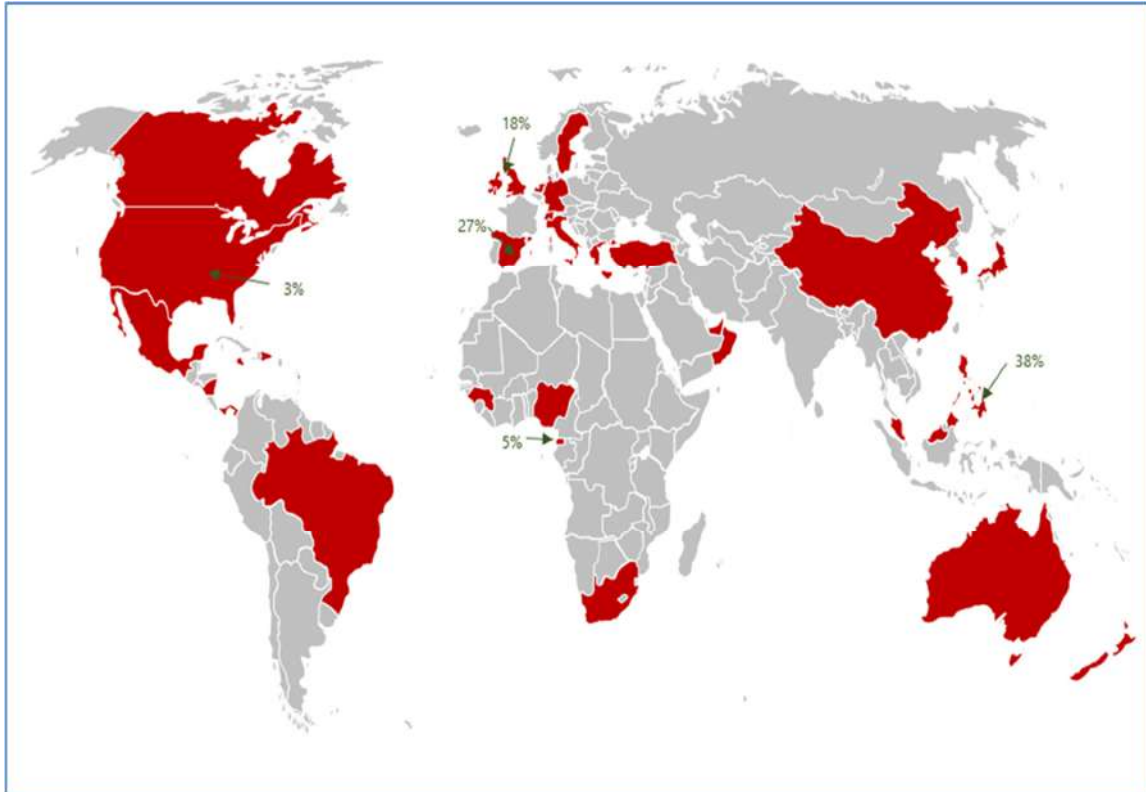
Bodegas Fundador operates as a global brandy and sherry company, with more than 80% of the revenues coming from Spain, Philippines and UK with the rest coming from other European, American and African markets. The global brandy and wine business is further fortified by the Domecq trademarks that fall under Spain and Mexico and have commercial reach to South America, particularly Brazil and Colombia, and USA. Strategic growth will be brands-led but will be supported by private label business.



Map showing WMG global reach:



The areas in red below shows the markets where Bodegas Fundador is present:



## **MEG**

Real estate products are also being marketed internationally (see b.3. below) in Europe, North America, Asia, Middle East and Australia through various brokers. Foreign sales contributed approximately 24% of Megaworld's consolidated sales and revenues.

GERI has a broad market base that consists of end-users and investors. It targets the A and B markets with special niche products such as the integrated-tourism estates and integrated lifestyle communities with residential, commercial and leisure components.

## **Travellers**

Based on Travellers' rated members (those members with gaming activity), the principal foreign market consistently contributing for 2018 are from United States, Korea and Malaysia. Foreign guests in Maxims Hotel come from Korea, China, Malaysia, and Singapore; guests in Holiday Inn Express Manila Newport City (formerly Remington Hotel) are from the United States, Korea, China and Japan; guests in Marriott are from the United States, Singapore, China and Japan; while for Courtyard are from the United States, Australia, Thailand and the United Kingdom.

## **Pik-Nik**

Pik-Nik products are being sold locally in USA and exported to other countries. The domestic sales in the USA slowed by 2% in 2018 as traditional retail stores struggle against club stores, dollar stores and natural food stores. Midwest is still the strongest market in the US, followed closely by Southeast and Southwest. International sales went up 31% as Middle East customers such as Crown is selling to major stores in Saudi Arabia.

### ***b.3. Distribution Methods***

## **EMP**

EMP has an extensive sales and distribution network which is one of its key strengths that will continue to drive its future growth. EDI has a nationwide distribution network operated through sales offices and distribution outlets strategically located in the country, which supply national and regional customers, hypermarkets, supermarkets, wholesalers, traders, grocery outlets, convenient stores, and local neighborhood small sari-sari, stores. It continually seeks ways to expand the reach of its distribution network, especially in the fast-growing regions of Mindanao and the Visayas. It employs its own sales and distribution force and vehicles fleet for direct delivery service. It uses direct sales vehicles such as cash vans to cover sari-sari stores across the country. Cash vans sell the brands directly to these small retailers on a cash-only basis, where the average transaction is for two cases. Other accounts get credit terms which vary from 15 to 30 days. Riding on the EDI network, the distribution base of the Group's foreign brands are significantly broadened in the Philippines.

EMP believes that the day-to-day interaction its sales team has with its trade partners is essential to maintaining product availability as well as access to its consumers.

The Company has a standard volume-based pricing model that is applied evenly across all customer segments and discounts are offered on large volume transactions.

The Emperador local brands have expanded international distribution to 55 countries by end-2018,

The WMG business has a strong, international Route to Market. In UK, a dedicated sales team covers all trade channels and customers. It also has a dedicated Global Travel Retail team which manages its brands in a channel that is critical for single malt whisky equity building and sales. In other markets Whyte and Mackay has established a network of distribution partners that represent the brands in each territory. The goal is to develop long term partnerships with a strong local distributor in every market, with selection based on strength and commitment in the channels offering the greatest opportunity in each market. In 2016, Whyte and Mackay appointed E&J Gallo as their exclusive importer into the USA for certain key brands.

The Dalmore opened its first flagship store in the Philippines in Uptown Bonifacio, an exclusive retail store that houses some of the rarest and most expensive whisky collection in the Philippines. The Keeper's Den, a by-invite only lounge within the store, is also open to its VVIPs to enjoy their Dalmore bottles along with their guests. As of end 2018, there are fourteen (14) retail stores in the Philippines. The Dalmore also extended its flagship store and opened the Cigar Lounge. The Dalmore Cigar Lounge curates the Dalmore classics: the King Alexander III (the only single malt in the world with six different finishes — spirits matured in ex-bourbon casks, Matusalem oloroso sherry butts, Madeira barrels, Marsala casks, Port pipes and Cabernet Sauvignon wine barriques); the Quintessence (with five wine finishes: Zinfandel, Merlot, Cabernet Sauvignon, Syrah and Pinot Noir); and The Dalmore 25. One can pair The Dalmore Cigar Malt Reserve with Cuban cigars (Cohiba Robusto, Cohiba Esplendidos, Hoyo de Monterrey Epicure No. 1, Montecristo No. 2, Partagas Serie E No. 2, and Romeo Y Julieta Short Churchill) which are also available at the lounge.

Bodegas Fundador partners with the best player in the distribution market, having long term agreements with country and region wine and spirit distributors in place. In 2016, EDI took over the distribution of Fundador in the Philippines, while Whyte and Mackay took over the distribution in UK and Canada. This combination assures a deep sell out market presence around the world. In particular, Bodegas Fundador products are now present in Columbia, Ecuador, Paraguay, Latvia, Ghana, Gabon, Macau and Taiwan.

In 2018, the first Fundador Café was created in the Philippines which is located at Venice Grand Canal at McKinley Hill. It offers hot and cold drinks and blended ones infused with Fundador products and sweets with Harvey Bristol Cream variances

#### **MEG**

Property units are pre-sold prior to project completion, and often prior to start of construction, at various payment schemes, with down payment plans ranging from 50% to zero down payment. A typical payment scheme includes progressive payments over the period in advance of property construction, including a balloon payment to coincide with buyers' expected cash flows. ELI offers interest-free schemes. Postdated checks are collected to cover the entire purchase price based on an amortization schedule. Transfer of title to the property occurs only when all payments have been received. Typically, construction of a residential will not begin until at least 70% of the units have been pre-sold.

Each project has an in-house marketing and sales division which is staffed by a trained group of property consultants who exclusively market MEG's projects. All property consultants are trained prior to selling and provided with skills enhancement program intended to further develop them into high-caliber marketing professionals. Property consultants are required to meet the set criteria. There are also outside agents who compete directly with the in-house personnel. Marketing services staff are also employed to provide auxiliary services for sales and promotional activities; they are also responsible for monitoring the latest developments in the economy and the real estate property markets as well as conducting market research studies for the marketing division. An international marketing division based in Manila oversees a global network of sales offices which market the projects of the group to overseas Filipino professionals and retirees throughout Asia, Europe, North America, the Middle East and Australia. Brokers based in the different overseas markets sell the projects overseas through their respective marketing networks.

Commercial leases are generally for terms of three to five years, and typically require three months of security deposits and three months of advance rent. Land and office leases, which require development of a specific building structure, are generally for a longer term of 10 to 15 years. Retail rentals are typically based on a turnover component of 3% to 5% of the tenants' revenues, net of taxes and service charges in addition to a minimum rent charge. Kiosk retailers are charged a flat rent fee. Megaworld's tenants are generally charged a monthly management fee assessed on a per square meter, which covers building maintenance expenses. Tenants are also required to pay their own utility charges. The performance of the tenants in retail properties are regularly monitored. Leases of retail tenants whose performance is lagging may not be renewed. The lease agreements typically have no pre-termination options by the tenants.

GERI promotes and markets its real estate products in key township developments of Boracay Newcoast, Twin Lakes, Sta. Barbara Heights, Southwoods City, Alabang West, Eastland Heights and The Hamptons Caliraya through an in-house marketing group and a marketing subsidiary. Real estate products in other developments are sold through third party real estate brokers. ELI has satellite sales offices in key cities outside Metro Manila. It also has showrooms in project sites and major malls.

### **Travellers**

RWM engages in direct relationship-based marketing, which is targeted at specific market segments. The marketing team focuses on market research, surveys, promotions and events that can drive visitations and convert them to returning guests. The sales team is responsible for sales revenues and channel performance. In addition, RWM advertises in many types of media both domestically and overseas, including television, radio, newspapers, magazines and billboards to promote general market awareness.

RWM uses a mix of different channels to reach the specific targets on gaming, lifestyle, and entertainment, such as:

- Direct sales - that comprises of three levels to provide clients with full service: (i) traditional sales, (ii) a business development team and (iii) in-house VIP host services.
- Indirect sales through junkets – from the well-established relationships of Genting Group, to source high-end players in different regions.
- Indirect sales through travel and tour operators – these accredited operators create group travel packages with discounts, to bring in guests in RWM as part of their itineraries, and in return, receive commissions.
- City shuttles - free, convenient, hassle-free shuttle transport for member-players and member-consumers to RWM. The key locations are Quezon City, Marikina, Manila, Rizal and Laguna.

RWM uses a comprehensive membership management and customer database system.

RWM uses Genting's Dynamic Reporting System (DSR), a fully integrated real-time table games and slots monitoring system.

### **GADC**

McDonald's products are sold through McDonald's restaurants nationwide. There are 620 restaurants nationwide as of end-2018, out of which 51% are owned by GADC while 49% are franchised. Sixty-one new restaurants opened in 2018 across the country and reached new territories like Catanduanes, Calbayog and Capiz; while seven were closed during the year. The highest concentration is in NCR, followed by Southern Tagalog region. In selected areas, McDonald's products could be ordered and delivered round the clock through its "McDelivery" telephone service, "McDelivery" application or "McDelivery" website "mcdelivery.com.ph". More than 60% of restaurants are open 24/7 (24 hours every day).

#### *b.4. New Product Or Service*

The Group continuously look for innovations to introduce new or to improve existing products. The Group has supported this business growth through plant/store expansions or construction and retail service amenities.

### **EMP**

**The BaR Premium Gin** is infused with flavors and botanicals imported from Spain that gives it a delicious burst of flavor not found in local gin products. The Bar Premium Gin comes in three variants: **Pink** with flavors of mixed berries, **Green** infused with lime flavors, and **Premium Dry** infused with imported botanicals.

**Club Mix Lime Juice** is a lime drink cordial meticulously formulated to go perfectly well with Emperador Light Brandy. Its fruity flavor of lime delivers a balanced sweet and sour taste that adds a refreshing twist to Emperador Light, making it LIME+LIGHT, the perfect mix, and GREENLIGHT.

**Fundador Double Wood** is a Brandy de Jerez Solera Reserve, inspired in the brandies originally crafted in the 19th century, where the prolonged aging makes the holandas acquire the most important and unique characteristics of wood.



**Fundador Triple Wood** is a Brandy de Jerez Solera Gran Reserve obtained through a very long ageing process that triples the standards of brandy production. A unique expression that reveals the depth of the elements contributed by the wood to a powerful bouquet from the long periods of aging.

**The Dalmore Port Wood Reserve** is released in 2018 as an addition to the Core Range.

**Tamnavulin Single Malt Scotch Whisky** Vintage Collection rare range with expressions from the years 2000, 1979, 1973 and 1970, together with a new Tempranillo finish was launched in 2018 for Global Travel Retail.

**Fettercairn Single Malt** was relaunched in 2018 with a new packaging with the lead expression 12year old supported by a 28year old, a 40year old, and a 50year old, all four showcasing the iconic unicorn symbol.

**Jura 12 Years** is an Asian exclusive. A modern classic aged 12 years. Reassuringly rich with smoky sherry sweetness. Matured in American white oak ex-bourbon barrels for 12 years and finished in Oloroso Sherry casks from Jerez, Spain. This 12-year old has refined succulent tropical aromas of chocolate, walnut, and citrus fruit. The exquisite taste is a medley of coffee, liquorice, salted bananas and brown sugar with a whisper of smoke in the finish..

## MEG

**La Victoria Global Residences** is the fourth residential development to rise in the 30-hectare **The Mactan Newtown** in Lapu-Lapu City, Cebu. The 20-storey *Galleon Victoria*- inspired tower will offer 181 spacious units and is expected to be completed in 2022. It is MEG's first and only township that has its own beachfront and expected to reach P1.5 billion sales.

The 52-storey **Vion Tower** will rise along EDSA corner Roces Avenue and is set to become a landmark in this side of Makati with its illuminated tower crown. It is just within walking distance from the proposed Magallanes transport hub and is highlighted by future-ready facilities such as a Smart Parcel Delivery System. MEG expects to generate around P8- billion in sales from this tower which is scheduled to be completed in 2024.

In March 2018, the 24<sup>th</sup> township development called **Highland City** was launched, which is MEG's first team up project with its subsidiary, mid-cost residential developer, ELI. To be built in a 24-hectare property in Cainta Rizal, this development is to cater to the booming demand for residential space close to Metro Manila's business hubs. The township will have 38 residential towers on the elevated portion, meant to "evoke a character of a city sitting on highlands". Highland Park will be the highlight of the estate which is an 8,000-square meter green and open park that will house a 500-seating church and some retail areas. 40-40-20 of the township would be devoted for open space, vertical residential development and retail, office and other formats,

Megaworld has allocated P60billion capital spending in 2018, with 80% covering development projects and the remaining 20% for land acquisition and other investment properties.

ELI has a project development located along Shaw Boulevard near EDSA called **The Paddington Place** which will have a total of 4 towers.

## Travellers

Travellers is currently developing several new hotels and other gaming and non-gaming attractions at RWM. And is committed to continuously improve and refresh the current facilities at RWM to create unique customer experience across a variety of gaming and non-gaming amenities.

In 2018, RWM opened its first hotel outside Metro Manila – **Courtyard by Marriott Iloilo** located in Iloilo Business Park, Iloilo City. It also opened a portion of the gaming facilities of Phase 3, which includes the ground floor gaming area and food and beverage outlets. In October 2018, **Hilton Manila** has officially opened to the public which offers 357 rooms, an all Filipino buffet restaurant, a beverage lounge, and a high end Chinese restaurant.

In January 2019, the RWM added another 390 rooms to its hotel portfolio with the opening of **Sheraton Manila Hotel**.

Parts of the Phase 3 project are still under development with expected completion of the remaining gaming and retail areas and one more hotel – **Hotel Okura Manila** – within 2019.

#### **GADC**

New McDonald's product variations and promotions are introduced every now and then which normally last for limited time only. GADC introduced a new variant of the classic chicken McDo, the Spicy Chicken McDo, during the first half of 2018. This is a new take on the Chicken McDo, marinated and breaded in a perfect blend of spices. New formulation of the McSpaghetti was also introduced. The new recipe introduced a meatier and cheesier version of the kid-loved product. Other Limited Time Offers during the year were Shake Shake Fries in new flavor options such as Honey Butter. In 2018, the brand also strengthened its McCafe range which includes the McCafe Premium Roast coffee, made with 100% Arabica beans with a rich, dark, roasted aroma, and the McCafe Iced Coffee, with its mixed of sweet and creamy goodness.

#### *b.5. Competition*

**In general**, the Company believes that the high quality of all the products it sells/offers can effectively compete with other companies in their respective areas of competition.

#### **EMP**

The Philippine spirits industry is dominated by brandy, gin and rum. Popularity of these spirits is strangely delineated geographically - gin in the northern provinces, rum in Viz-Min areas and brandy in Metro Manila and urban centers nationwide. Brandy has recorded the highest consistent sales among all the spirits in the industry. There are also imported labels in the domestic market, but they are significantly more expensive than the locally-produced products. Emperador is recognized as the largest-selling brand in the Philippines and No. 1 brandy in the world, and EDI as the largest liquor company in the Philippines in terms of volume. EDI capitalizes primarily on the superior image and reputable quality of its brands.

Emperador competes primarily against established Philippine spirits companies that produce and distribute brandy and other spirits to the domestic market. The main competitors in the Philippine broad distilled spirits market mainly comprise of Ginebra San Miguel, Inc. (GSMI) and Tanduay Distillers, Inc. (TDI). The Company also competes against imported labels. With respect to flavored spirits products, it primarily competes with other local vodka and gin companies that also produce ready-to-serve alcoholic beverages as well as imported labels. The whisky segment in the Philippines is not well tapped at present, and EMP aims to revive this segment.

The principal competitive factors with respect to EMP's products include brand equity, product range and quality, price, ability to source raw materials, distribution capabilities and responsiveness to consumer preferences, with varying emphasis on these factors depending on the market and the product. EMP believes it has a track record of proven strength on these areas.

EMP believes that its products are strongly positioned within their respective markets, as measured by market share and brand recognition. Emperador Brandy accounted for 98.27% share of the Philippine brandy market in terms of sales volume, according to A C Nielsen Retail Audit. EMP believes its 'Emperador' brand is a status brand in the Philippines, and is associated with a certain level of success and sophistication that its potential customers aspire to. EMP believes that its range of well-established and highly recognized brands present significant barriers to new competitors, and are particularly important to its ability to both attract and maintain consumers.

Fundador brands face stiff competition in the Spanish market and internationally in the brandy and sherry businesses, among which are Osborne and Torres. The management monitors the market and the strategies of the competitors to safeguard the overall competitive position.

WMG, on the other hand, competes in the UK market and internationally competitors use brand strength together with price and product range to compete. The major Scotch whisky brand owners are Diageo, Pernod Ricard, William Grant and Bacardi who are all materially larger than WMG. WMG can compete as they have differentiated brands in a fragmented Malt whisky market and their Blended Scotch brands are competitively priced. WMG management monitors market prices on an on-going basis and takes steps to safeguard the overall competitive position.

### **Pik-Nik**

Pik-Nik is still the number one brand of shoestring potatoes in the US. A local brand, Oishi, has fielded string potato snacks from potato starch in the local market.

### **MEG**

MEG competes with other property investment, development, leasing and property holding companies to attract purchasers as well as tenants for its properties in Metro Manila. The principal bases of competition in the real estate development business are location, product, price, financing, execution and completion, quality of construction, brand and service. MEG believes it has several competitive advantages in each of these categories due to the prime locations of its properties, innovative projects and a good reputation for high quality designs, affordable pre-sales financing, after-sales service and a consistent track record of completion.

The group attributes its strong residential sales to two main factors – the popularity of its live-work-play communities in Metro Manila and the group’s proven track record of delivering more than 374 buildings to its customers over the last two decades.

With respect to community township developments, MEG considers ALI to potentially be its only significant competitor. ALI is present in Fort Bonifacio, which is where MEG’s Forbes Town Center, McKinley Hill, McKinley West and Uptown Bonifacio projects are located. With respect to its office and retail leasing business, MEG believes that it has many competitors in the industry such as Robinsons Land Corporation (“RLC”), ALI and SM Prime Holdings, Inc. (“SMPHI”).

GERI considers Ayala Land Premiere, Alveo, Filinvest Premiere, Landco and SM Prime among its significant competitors in its real estate development business. GERI competes with other developers in the acquisition of land or development rights to land in key growth areas in the country. GERI believes that its land bank, its real estate development experience, its innovative real estate offerings and the solid financial backing of its parent, Megaworld Corporation, are its competitive advantages. Its massive land bank in tourist destinations such as Boracay Island, Aklan; Laurel and Nasugbu, Batangas gives it a lead over its competitors and has enabled GERI to be a pioneer in master-planned integrated tourism developments.

### **Travellers**

RWM, being the first integrated resort with world-class gaming in the Philippines, has set a benchmark in a very high and unique manner. It competes with both Philippine and foreign owned hotels and resorts. With respect to the gaming business, competition comes from casinos operated by government and other private companies.

In particular, there are facilities already built by three developers other than RWM that have been granted provisional licenses by PAGCOR in Entertainment City, all of which are already open to the public. These three other licensees similarly partnered with international resorts and gaming companies are: Melco Resorts and Entertainment (Philippines) Corporation; Tiger Resorts, Leisure and Entertainment, Inc., Bloomberry Resorts Corporation. In addition, Westside City Resorts World will be developed in Entertainment City by the Company’s co-Licensee, WCRWI.

While it has the first-mover advantage, RWM continues to develop other leisure and entertainment attractions to complement its gaming business. It is expanding its hotel service through additional hotel brands and rooms, and its attractions as a family destination.

In addition, PAGCOR operates 9 gaming facilities across the Philippines and 31 satellite gaming facilities (which are smaller casinos and slots clubs). The Philippine gaming market also includes many other private casino and gambling operations, including six licensed private casino operators in special economic zones (“Ecozones”). The Philippine gaming market is also comprised of other gambling competitors specializing in horse racing, cock fighting, jueteng, lotteries, sweepstakes, online gaming operators and other smaller-scale gaming operators.

## **GADC**

McDonald's restaurants compete with a large and diverse group of restaurant chains and individual restaurants that range from independent local operators to well-capitalized national and international QSRs and convenience stores. GADC considers Jollibee Foods Corporation as its main competitor. Jollibee, a home-grown brand with far greater number of restaurants nationwide than McDonald's, offers Filipino-influenced dishes of chicken, burgers, spaghetti, and other Filipino dishes. Another one is KFC, a global brand from USA whose most popular product is its Original Recipe fried chicken served with side dishes. Other competitors include Wendy's, Kenny Rogers, Shakey's and Pizza Hut. Since 2005, GADC has opened more than 300 new restaurants and initiated marketing campaigns such as new product launches, promotions, emotive television commercials, and discount coupons. It has embarked on modernizing its restaurants and re-imaging existing ones. GADC competes on the basis of taste, food quality and price of products, convenience of location, and customer service.

### *b.6. Sources And Availability Of Raw Materials*

#### **EMP**

The principal raw materials for the manufacture of the alcoholic beverage products are distilled neutral spirit, brandy distillates, grain and malt whiskies, and water. It also requires a regular supply of glass bottles and packaging materials. It can also source raw materials from subsidiaries and third-party suppliers. All of the water for blending is sourced from two deep wells located in the Santa Rosa, Laguna manufacturing facility. The facilities in Laguna are located on top of one of the best fresh water supplies in the Philippines. There is also a filtration system for the water it uses at its Laguna facilities.

EDI sources its bottles from AWGI, which produces a majority of the new glass bottles; and the rest are imported. EDI also reuses returned bottles. AWGI canvasses suppliers twice a year to seek the most competitive prices for its raw materials. While terms for different suppliers vary, AWGI generally orders raw materials to meet its projected supply requirements for one year and prices are subject to review on a quarterly basis. For imported raw materials, new purchase orders for supplies are generally sought two months prior to the expiration of existing purchase orders. For raw materials sourced in the Philippines, orders are finalized one month before existing orders terminate. At least three suppliers are maintained for major raw materials. In addition, major raw materials' suppliers typically maintain a warehouse in close proximity to the AWGI plant to cover possible delays in shipments and to prevent delivery interruptions. AWGI also maintains its own inventory of raw materials to prevent interruptions to production. EDI sources final packing material such as carton boxes and closures from at least three different suppliers.

EMP has not experienced and does not anticipate any significant difficulty in obtaining adequate supplies of raw materials and dry goods at satisfactory prices under its supply arrangements. EMP believes that AWGI has not had, and does not expect to have, difficulty sourcing glass bottles on behalf of EMP from third party suppliers, as required.

Whyte and Mackay and Bodegas Fundador have long term relationships with its suppliers to meet the current business requirements. Pricing agreements are in place with all suppliers.

#### **MEG**

The Group has a broad base of suppliers from where it sources its construction materials and is not, and does not plan to be, dependent on any one or a limited number of suppliers. Megaworld also has no plans on being dependent on any one or a limited number of suppliers.

#### **Travellers**

Travellers has a large base of contractors and suppliers that provide construction, engineering and consulting services, and is not dependent on any one contractor or supplier. In 2018, the ten largest suppliers – Global Matrix Concept Group, Systech Lighting & Controls Inc., Jay Edwards Group LLC, Top Source Maintenance and Contracting Services, ARL Power Connect Corp, Aristocrat (MACAU) PTY Limited, S. Kian Seng SDN BHD, Angel Playing Cards Singapore PTE Ltd, Matsui Asia Ltd – accounted for 38.41% of the total purchases for the year.

### **GADC**

Suppliers for the McDonald's products are sourced using the McDonald's global supply chain, which allows the purchase of food, beverages and restaurant supplies at competitive prices and quality consistent with McDonald's products worldwide. McDonald's has quality assurance laboratories around the world to ensure that its standards are consistently met. In addition, McDonald's works closely with suppliers to encourage innovation, assure best practices and drive continuous improvement. GADC also contracts the services of third parties for its food supplies. GADC procures the services of a supply distribution center that provides purchasing, warehousing, delivery and other logistical support for the requirements of all of the McDonald's restaurants in the Philippines. GADC develops product specifications and continually monitors supplies to ensure compliance with McDonald's standards.

### **Pik-Nik**

Pik-Nik uses only fresh potatoes from California and Oregon, pure vegetable oil, the finest seasonings and never any preservatives. The suppliers of potatoes for Pik-Nik have two to seven months contracts.

#### ***b.7. Customer Dependence***

The Group's businesses are not dependent upon a single or a few customers or tenants, the loss of which would not have a material adverse effect on the Company and its subsidiaries taken as a whole. There is also no customer that accounts for, or based upon existing orders will account for, 20% or more of sales.

#### ***b.8. Transactions With And/Or Dependence On Related Parties***

The Company and its subsidiaries, in the ordinary course of business, engage in transactions with affiliates. The Company's policy with respect to related party transactions is to ensure that these are entered on terms comparable to those available from unrelated third parties. Inter-company transactions between and among the Company and its subsidiaries are eliminated in consolidation and thus are no longer reflected in the consolidated financial statements. These primarily consisted of the following:

- Cash advances for financial requirements. Entities within the Group obtain advances from the parent and/or other entities and associates for working capital or investment purposes. There are also certain expenses that are paid in behalf of other entities.
- Lease of manufacturing facilities. AGI leases the glass manufacturing plant property to AWGI.
- Lease of parcels of land. GARC leases out these lots to GADC.
- Lease of office spaces. MEG leases out office and parking spaces to AGI, subsidiaries, and affiliates.
- Purchase and sale of real estate, services and rentals. Real estate properties are bought or sold based on price lists in force with non-related parties. Services are usually on a cost-plus basis allowing a margin ranging 20%-30%. Commissions for marketing services are based on prevailing market rates.
- Supply of glass bottles. AWGI supplies the new bottle requirements of EDI.
- Receivables from subsidiaries/franchisees. GADC supplies restaurant equipment, food, paper and promotional items to all franchisees, including affiliated restaurants, at normal market prices through a third party service provider.

Major related party transactions have been disclosed in Note 29 to the consolidated financial statements appearing elsewhere in this report.

#### ***b.9. Licenses, Trademarks, Franchises***

In the Philippines, certificates of registration of trademarks issued by the Philippine Intellectual Property Office prior to the effective date of the Philippine Intellectual Property Code in 1998 are generally effective for a period of 20 years from the date of the certificate, while those filed after the Philippine Intellectual Property Code became effective are generally effective for a shorter period of 10 years, unless terminated earlier.

## **EMP**

EDI owns registered trademarks which are of material importance to the success of its business since they have the effect of developing brand identification and maintaining consumer loyalty. EDI's principal trademark is 'Emperador', which it purchased from Condis in 2007, in addition to associated patents, copyrights and goodwill and bottle designs for its brandy products. Its trademark for 'Emperador' has a fresh period of ten years expiring in 2025 after its renewal in 2015 with the Philippine Intellectual Property Office ("Philippine IPO"). It also registered the trademark for 'Generoso' and the trademark for its 'The BaR' flavored alcoholic beverage products in 2006 and 2008, respectively, while the trademark for 'Emperador Deluxe' was registered with the Philippine IPO in 2015 for a period of ten years. The new Andy Player trademark is registered in 2015 for a period of ten years.

EDI trademarks for its brands, Emperador brandy, Andy Player, The Bar and Zabana, are also registered in more than 30 countries, among which, the European Union, USA, Canada, Australia, Japan, Vietnam, Taiwan, Hong Kong, Indonesia, Laos, Cambodia, and Myanmar.

Whyte and Mackay owns approximately 700 trademarks worldwide, which includes trademarks for its products: The Dalmore, Isle of Jura, Whyte & Mackay, Shackleton, Tamnavulin, Vladivar, Glayva, Claymore, John Barr and Cluny brands. Bodegas Fundador owns more than 900 trademarks worldwide, for its brands: Fundador, Tres Cepas, Terry Centenario and Harveys. Trademarks are typically renewed on a 10 to 20-year cycle. In 2017, CBSP acquired trademarks of well-known brands San Patricio, a dry Fino Sherry and Espléndido brandy and DBLC acquired trademarks in two main geographies, Mexico and Spain. Registered in Mexico are trademarks for brandies Presidente, Don Pedro and Azteca de Oro, wines and canes in Mexico and brandies in USA; and in Spain are trademarks for brandies Brandy Domecq and Don Pedro in Brazil and Colombia and sherry wine in Benelux.

## **MEG**

Megaworld owns the registered trademark over its name and logo which was renewed in March 2015 and valid until March 2025. GERI has trademark registrations and/or applications for its corporate name and key projects. Although the brand is important, Megaworld and GERI do not believe that its operations or its subsidiaries' operations depend on its trademarks or any patent, license franchise, concession or royalty agreement.

## **Travellers**

Travellers holds a PAGCOR license to operate casinos and engage in gaming activities in two sites – in Newport City (Site B) where RWM is situated, and in Entertainment City (Site A) where Westside City Resorts World is set to rise. The term of the license is co-terminus with PAGCOR's franchise which will expire on July 11, 2033 and shall be renewed subject to the terms of the PAGCOR charter.

On March 18, 2013, **Westside City Resorts World Inc.** ("WCRWI") entered into a deed of accession (the Deed of Accession), which was accepted, agreed and consented to by PAGCOR. Pursuant to the Deed of Accession, WCRWI acceded to the rights, title, interests and obligations of Travellers under the Provisional license and other relevant agreement with PAGCOR. Accordingly, PAGCOR recognized and included WCRWI as a co-licensee and co-holder of the Provisional License and other relevant agreements.

Further, on June 10, 2013, Travellers and WCRWI entered into a cooperation agreement (the Cooperation Agreement) which designates the parties' respective rights, interests and obligations under the Provisional License and other relevant agreements. Specifically, the parties agreed that WCRWI would have all the rights and obligations under the Provisional License with respect to Site A (Westside City Resorts World) and that Travellers would have all the rights and obligations with respect to Site B (Resorts World Manila).

Accordingly, on June 28, 2013, PAGCOR issued an Amended Certificate of Affiliation and Provisional License certifying Travellers and WCRWI as co-licensees and co-holders of the Provisional License and other relevant agreements.

On 23 September 2014, Travellers subscribed to common and preferred shares in WCRWI making it the effective owner of ninety five percent (95%) of WCRWI.



Travellers also has a non-exclusive non-transferable right and license within Metro Manila to the use of Marriott trademarks for hotel services and other related goods and services offered in connection with the hotel.

It has registered trademarks over "Passion," "Gamezoo," "Remington Hotel Newport City," "Remington Hotel Manila," "Remington Inn," "Remington Hotel Manila with Chinese Characters," "Newport Performing Arts Theater," "Grand Opera House," "Grand Opera House Manila," "Fun Fiesta Jackpot," "Manila Millions Poker," "Mabuhay Millions Poker," "Noodle Works," "iGrab everything I want," "iGrab," "Impressions," "Café Maxims," "Mercado," "Remington Bar Lounge," "Bar 360," "Ginzadon," "Grabit," "Thrill Like No Other," "Newport Performing Arts Theater Bar," "The Terrace," "Lucky Noon," "Laff Laugh Fun," "Kami Naman ang Taya," "Musikat Records," "Oak Tree Inn," "Regal Inn," "Hotel Gran Palacio," "El Castillo de Manila," "Castillo Manila," and "The Grand Theatre of Manila," "Grand Theatre of Manila," "Chill," "Grand Fiesta Manila," "R88," "Manila Bayshore Heritage Foundation, Inc.," "The World of Luck," "Franks Craft Beers Manila," "Westford Inn," "Full House Theater Company," "Victoria Harbour," "Bayshore City Resorts World," "Westside Theatre," "Herald Theatre," "Fortissimo Theatre," "Galaxy Theatre," "Excelsior Theatre," "Diamond Theatre," "Bohemia Theatre," "Apollo Theatre," "Front Row Theatre Management," "Original Pilipino Performing Arts," "House Manila," "Silogue All Day Pinoy Comfort Food," "Calle Newport," "The Grand Bar and Lounge," "El Calle," "Newport Garden Wing," "Newport Grand Wing," "Newport Resorts Manila," "Newport Gate Wing," "Silk Road Southeast Asian Cuisine," "Vintas All Day Dining Café," "Children of Newport Resorts Manila Foundation," "Brain Boost Coffee Energy In A Cup," "Port Bar," "Kusina Sea Kitchens," "Freestyle Pool Bar," and their related devices which will expire on various dates in 2018-2029, and are renewable thereafter.

#### **GADC**

GADC has nonexclusive rights as a franchisee to use and adopt the McDonald's intellectual property in the Philippines, including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information, some of which, including the trademarks for "McDonald's," the golden arches logo, Ronald McDonald and "Big Mac." The license agreement contains provisions regulating GADC's use of such trademarks in accordance with McDonald's Corporation's franchise system. GADC's license agreement with McDonald's was renewed in March 2005 for a period of 20 years. It provides for a royalty fee based on a certain percentage of gross sales from the operations of all Company's restaurants, including those operated by the franchisees. Individual sublicense arrangements granted to franchisees generally include a lease and a license to use the McDonald's System for a period of 3 to 20 years, with a co-terminus provision with the master franchise.

#### *b.10. Government Approval Of Principal Products Or Services*

#### **EMP**

Philippine local government legislations require a license to sell alcoholic beverages and prohibit the sale of alcoholic beverages to person under 18 years of age or within a certain distance from schools and churches.

Advertising and marketing of alcoholic beverages are regulated by the **Ad Standards Council (ASC)**, the advertising industry body in-charge of screening and regulating content of advertising materials across all medium.

EMP strictly follows the alcohol advertisement regulations issued by the ASC, in advertising its products in all platforms. EMP ensures that its communications target only those of legal drinking age and advocates to its consumers that EMP's high-quality products should be enjoyed responsibly.

In addition, approvals from the FDA are required before EMP can manufacture a new product. In addition, all new products must be registered with the BIR prior to production.

The group is in compliance, and not aware of any material deviation, with all applicable regulatory, environmental, health and safety regulations. All the products are registered and approved by FDA. EMP monitors compliance of all stages of its production process with pertinent hygiene practices to ensure the high quality of its finished products.



WGM has an environmental policy which commits it to ensure that its activities are conducted in ways which comply with the law and, so far as is reasonably and commercially practicable, do not harm the environment. Its five distilleries and associated warehouses are extensively regulated under Customs and Excise licenses and regulations, Environmental Agency regulations on water abstractions, effluent discharges, air emissions and Health and Safety legislation.

Whyte and Mackay is in compliance, and not aware of any material deviation, with all applicable regulatory, environmental, health and safety regulations.

Bodegas Fundador is aware that its raw materials come from nature and its processes can result in environmental impacts on soil, water and air. Its activities would not be feasible without the support of the environment in which it operates and therefore consider it necessary to preserve the environment for its business to be viable long term. By that, it is its main interest to take care and respect the environment as one of the pillars of its business culture.

Bodegas Fundador builds this business culture in systems of management that constitute the unifying axis from which it articulates a process of continuous improvement in key business aspects: the safety and health of employees, with the standard OHSAS18000, quality of products with the standard ISO9001, and the environment with the standard ISO14001, accumulating more than 15 years of experience in these standards.

Knowing the increasingly competitive and changing environment, and always looking for excellence, Bodegas Fundador decided in 2008 to go a step further, being certified under the framework of three of the more demanding standards that currently exist in the field of food safety: BRC, IFS and FSSC22000. These standards constitute an endorsement to consumers that its products are made under strict controls of quality that guarantee their safety. In 2011, Bodegas Fundador began the implementation of its own Lean Manufacturing program, under the umbrella of the TRACC methodology. It was incorporated into Bodegas Fundador operations, a model of management born in Japanese automation industry, whose results have been such that the model has finished transcending the barriers of this industry to other sectors of activity with equally successful outcome. Through the implementation of Lean Manufacturing program, it gets continuous and sustainable improvement in (among others) aspects such as safety and health, quality, the environment, the commitment of employees, team work or the efficiency of the processes, which synergize with other management systems mentioned above.

## **MEG**

A barangay clearance and development permit from the local government unit ("LGU") must be secured before commencing land development works. Before the start of structural construction activities, a building permit must be secured from the LGU. A certificate of registration and a license to sell, both from the Housing and Land Use Regulatory Board ("HLURB"), must be secured before launching any selling activities. All subdivision and condominium plans for residential, commercial, industrial and other development projects are required to be filed with and approved by the HLURB and the relevant LGU of the area where the project is situated. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans, which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant government body or agency.

Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. As a requisite for the issuance of a license to sell by the HLURB, developers are required to file with the HLURB surety bond, real estate mortgage or cash bond to guarantee the construction and maintenance of the roads, gutters, drainage, sewerage, water system, lighting systems, and full development of the subdivision or condominium project and compliance with the applicable laws, rules and regulations. Real estate dealers, brokers and salesmen are also required to register with the HLURB before they can sell lots or units in a registered subdivision or condominium project. Real estate brokers are required by HLURB to take licensure examinations and attend continuing professional education programs.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, by itself or upon a verified complaint from an interested party, for reasons such as non-delivery of title to fully-paid buyers or involvement in fraudulent transactions. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

The group routinely applies for regulatory approvals for its projects and some approvals are pending. No existing legislation or governmental regulation, and the group is not aware of any pending legislation or governmental regulation that is expected to materially affect its business.

The group complies with all regulations applicable to the development and sale of its projects.

### **Travellers**

Travellers operates its gaming activities through the license granted by PAGCOR, a government-owned and controlled corporation, which was granted the franchise to operate and license gaming casinos, gaming clubs and other similar recreation or amusement places, gaming pools, whether on land or sea, within the Philippines. The franchise of PAGCOR is extended for another 25 years after July 11, 2008, its original term.

The activities and operations of RWM are closely monitored by PAGCOR Monitoring Team (PMT) which maintains an office inside RWM where officials are stationed 24 hours a day. Travellers is in continuous close contact with PAGCOR regarding compliance with its gaming concession and all applicable Philippine laws. It is also required to provide periodic reports to PAGCOR.

Shopping malls are regulated by the local government unit of the city or municipality where the shopping mall is located. Retail stores in shopping malls must secure a mayor's permit or municipal license before operating and must comply with the fire safety provisions and other applicable local ordinances. Operators of restaurants and other food establishments as tenants must obtain a sanitary permit from the same local government unit where the shopping mall is located.

### **GADC**

There are no special government approvals necessary for new food products apart from the standard Department of Trade and Industry permits.

### ***b.11. Effect Of Existing Or Probable Government Regulations***

**Value Added Tax** is a business tax imposed and collected from the seller in the course of trade or business on every sale of properties (real or personal), lease of goods or properties (real or personal) or rendering of services. It is an indirect tax, thus, it can be passed on to the buyer. Current rate is 12% of net retail/sale price or service revenue.

Effective November 1, 2005, sales of residential lots with a gross selling price of ₱1.5 million or less, and residential house and lots with a gross selling price of ₱2.5 million or less, are not subject to VAT. Effective January 1, 2012, the thresholds for exemption are increased to -P1,919,500 or less for residential lots and P3,199,200 for residential house and lots.

On December 17, 2017, *Republic Act No. ("RA") 10963*, known as the *Tax Reform for Acceleration and Inclusion ("TRAIN")* was approved effective January 1, 2018. One of the amendments introduced is the lowering of threshold amount for VAT on sale of residential lot and sale of house and lot. Sale of residential lots with gross selling price of ₱1.5 million or less, and residential house and lots with gross selling price of ₱2.5 million or less are not subject to VAT; provided that beginning January 1, 2021, the VAT exemption shall only apply to sale of real properties not primarily held for sale to customers, sale of real property utilized for socialized housing as defined by RA No. 7279, sale of house and lot, and other residential dwellings with selling price of not more than P2 million.

## EMP

Philippine local government legislations require a license to sell alcoholic beverages and prohibit the sale of alcoholic beverages to person under 18 years of age or within a certain distance from schools and churches. In addition, approvals from the FDA are required before the Company can manufacture a new product. In addition, all new products must be registered with the BIR prior to production.

In addition to VAT, the alcohol products which are manufactured in the Philippines for domestic sales or consumption, including imported items, are subject to excise taxes. The brandy products which are produced from locally processed distilled spirits from the juice, syrup or sugar of the cane are levied an excise tax on per proof liter. [A proof liter is a liter of proof spirits, which are liquors containing one-half of their volume of alcohol with a specific gravity of 0.7939 at 15°C]. The current law, *RA 10351, known as the Sin Tax Reform Act of 2012*, imposes on distilled spirits a 15% ad valorem tax based on net retail price per proof plus ₱20.00 per proof liter for the years 2013-2014, with the ad valorem tax rate increasing to 20% thereafter while the ₱20.00 specific tax by 4% every year from beginning of 2016. EDI currently substantially passed on to consumers and form part of the sales prices.

Republic Act 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law, which amends certain provisions in the Philippine Tax Code, took effect on January 1, 2018. Section 47 of the TRAIN Law, imposes an excise tax on sweetened beverages.

On July 25, 2018, Revenue Regulations (RR) No. 20-2018, and seeks to implement the new taxes on sugar-sweetened beverages. Under RR 20-2018, sweetened beverages were defined as “non-alcoholic beverages of any constitution (liquid, powder, or concentrates) that are pre-packaged and sealed in accordance with the Food and Drug Administration standards that contain caloric and/or non-caloric sweeteners added by the manufacturers.” For sweetened beverages that use purely caloric sweeteners, and purely non-caloric sweeteners, or a mix of caloric and non-caloric sweeteners, the tax rate per liter of volume capacity was P6. As for sweetened drinks using purely high fructose corn syrup or in combination with any caloric or non-caloric sweetener, the specific tax was P12 per liter.

The particular products covered by the new excise tax were the following: sweetened juice drinks; sweetened tea; all carbonated beverages; flavored water; energy and sports drinks; other powdered drinks not classified as milk, juice, tea, and coffee; cereal and grain beverages; as well as other non-alcoholic beverages that contain added sugar, while products using purely coconut sap sugar and purely steviol glycosides were exempt from the excise tax, as long as these “comply with specifications as stated in the Philippine National Standard/Bureau of Agricultural and Fisheries Products Standards 76:2010 ICS 67.180 or latest updated standards.

Considering that EMP ventured into the manufacturing of sweetened non-alcoholic drink, when it launched Club Mix Lime Juice, it was affected by this new legislation.

In UK, the *Scotch Whisky Regulations 2009* (“SWR”) came into force on November 23, 2009, replacing the Scotch Whisky Act 1988 and the Scotch Whisky Order 1990. Whereas the previous legislation had only governed the way in which Scotch Whisky must be produced, the SWR also set out rules on how Scotch Whiskies must be labelled, packaged and advertised, as well as requiring Single Malt Scotch Whisky to be bottled in Scotland, labelled for retail sale, from November 23, 2012. The SWR make clear that Scotch Whisky must be wholly matured in Scotland. They also require that all maturation must take place in an excise warehouse or in another permitted place regulated by Her Majesty's Revenue and Customs (“HMRC”). Regulation 3(2) defines five categories of Scotch Whisky which must appear clearly and prominently on every bottle of Scotch Whisky sold:

1. Single Malt Scotch Whisky – A Scotch Whisky distilled at a single distillery (i) from water and malted barley without the addition of any other cereals, and (ii) by batch distillation in pot stills. From 23 November 2012, Single Malt Scotch Whisky must be bottled in Scotland.
2. Single Grain Scotch Whisky - A Scotch Whisky distilled at a single distillery (i) from water and malted barley with or without whole grains of other malted or unmalted cereals, and (ii) which does not comply with the definition of Single Malt Scotch Whisky.
3. Blended Scotch Whisky - A blend of one or more Single Malt Scotch Whiskies with one or more Single Grain Scotch Whiskies.
4. Blended Malt Scotch Whisky - A blend of Single Malt Scotch Whiskies, which have been distilled at more than one distillery.
5. Blended Grain Scotch Whisky - A blend of Single Grain Scotch Whiskies, which have been distilled at more than one distillery.

SWR provided added legal protection for the traditional regional names with Scotch Whisky production, ie 'Highland', 'Lowland', 'Speyside', 'Campbeltown', and 'Islay'. These names can only appear on whiskies wholly distilled in those regions. A distillery name must not be used as a brand name on any Scotch Whisky which has not been wholly distilled in the named distillery. Labelling must not by any other means mislead consumers as to where the Scotch Whisky has been distilled.

SWR maintain the long standing rule on the use of age statements, i.e. the only age which may be stated is the age of the youngest Scotch Whisky in the product. When distillation or vintage year will be used, then only one year may be mentioned together with the year of bottling or age statement which must appear in the same field of vision as the year of distillation or vintage, and all of the whisky in the product must have been distilled in that vintage year.

On March 13, 2017, excise duty on spirits increased by nearly 4% or 36pence a bottle, which resulted in level of tax –excise duty and vat- on an average priced bottle of Scotch Whisky of about 80%. In November 2017 and October 2018 no further increase was made and duties on spirits were frozen. Yet, the Scotch Whisky Association repeats its call for a review of the alcohol duty system to deliver fairness for Scotch Whisky which is a unique UK product that needs to thrive after Brexit.

In Spain, the *Regulation of the Specific Denomination "Brandy de Jerez"* and its Regulating Council was approved by means of Ministerial Order dated June 13, 2005. This regulation contains the technical specifications relating to the production, ageing, packaging and labeling of Brandy de Jerez. The technical specifications of the product are included in the *Technical File of the Geographical Indication of Brandy de Jerez* that was approved by the Regional Ministry of Agriculture and Fisheries via Order dated February 9, 2015, that went into force on February 20, 2015. This regulation contains the specifications of the product, compliance with which, must be verified to enable use of the protected name. The Geographic Indication "Brandy de Jerez" is protected in the European Union, in accordance with its registration as a protected geographical indication, as per regulation (EU) no. 110/2008 relating to the definition, description, presentation, labelling and protection of the geographic indication of spirit drinks.

In order to be considered a Brandy de Jerez, it must be made according to the methods set down by the Regulating Council. The area of production and ageing of Brandy de Jerez must be exclusively within the Sherry triangle, which is defined by the boundaries of Jerez de la Frontera, Sanlúcar de Barrameda and El Puerto de Santa María, and bottling must be carried out exclusively in the wineries that are registered and authorized by the Regulating Council. Its production process is based on the solera system (seulo or floor) in oak butts previously seasoned with sherry. Different types of sherry give the brandy a different flavor. The traditional ageing system of criaderas (nurseries) and soleras (suelo or floor) must be used.

In Jerez, it is possible to use wine spirits of a higher degree of alcoholic content provided that the distillate or holandas does not exceed a maximum of the 50% of the alcoholic content of the finished product. The holandas must always represent 50% minimum of the final brandy. Brandy de Jerez can be classified into three categories as per its period of ageing:

1. Brandy de Jerez Solera – ageing for more than six months expressed in UBEs (Basic Ageing Unit)
2. Brandy de Jerez Solera Reserva - ageing for more than one year expressed in UBEs.
3. Brandy de Jerez Gran Reserva - ageing for more than three years expressed in UBEs.

The Andalusian Regional Department of Agriculture, Fisheries and Rural Development has approved the Order dated 28 June, 2018, which contains the new Technical File regarding the Geographical Indication of "Brandy de Jerez", replacing the former Order dated 9 February, 2015. This regulation contains the technical specifications of the products. On the other hand, the new Operational Regulation of the Regulatory Board of "Brandy de Jerez" has been approved by an Order dated 16 February 2018 issued by the Andalusian Regional Department of Agriculture, Fisheries and Rural Development, replacing the former Order dated 13 June 2005.

The new Delegated Regulation (EU) 2019/33 of the Commission, of 17 October 2018, which completes Regulation (EU) No. 1308/2013 of the European Parliament and the Council, regulates applications for protection of appellations of origin, geographical indications and traditional terms of the wine sector, the opposition procedure, restrictions on use, amendments to the specifications, cancellation of protection, as well as labeling and presentation. It has replaced former Commission Regulation (EC) N. 607/2009 of 14 July 2009, which established certain provisions for the application of Council Regulation (EC) No 479/2008, which regulated also protected designations of origin and geographical indications, traditional terms, the labeling and presentation of certain wine products.

Spanish duty and excise tax rates were updated at the end of 2016 by the Spanish Government at a 5% increase from 2015.

## **MEG**

*Presidential Decree ("PD") 957, RA 4726 and Batas Pambansa ("BP") 220* are the principal statutes that regulate the development and sale of real property as part of a condominium project or subdivision projects for residential, commercial, industrial and recreational purposes. The HLURB is the administrative agency which, together with LGU, enforces these decrees and has jurisdiction to regulate the real estate trade and business.

All subdivision and condominium plans for residential, commercial, industrial and other development projects are required to be filed with the HLURB and the pertinent LGU of the area in which the project is situated. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans, which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant government body or agency.

The development of subdivision and condominium projects can commence only after the relevant government body has issued the required development permit.

The issuance of a development permit is dependent on, among other things: (i) compliance with required project standards and technical requirements which may differ depending on the nature of the project and (ii) issuance of the barangay clearance, the HLURB locational clearance, Department of Environment and Natural Resources ("DENR") permits and Department of Agrarian Reform ("DAR") conversion or exemption orders, as discussed below. A bond equivalent to 10% of the total project cost is required to be posted by the project developer to ensure commencement of the project within one year from the issuance of the development permit.

Developers who sell lots or units in a subdivision or a condominium project are required to register the project with and obtain a license to sell from the HLURB. Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, by itself or upon a verified complaint from an interested party, for reasons such as involvement in fraudulent transactions, misrepresentation about the subdivision project or condominium project in any literature which has been distributed to prospective buyers. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

Real estate dealers, brokers and salesmen are also required to register with the HLURB before they can sell lots or units in a registered subdivision or condominium project. On June 29, 2009, *RA 9646 or the Real Estate Service Act of the Philippines* was signed into law. RA 9646 strictly regulates the practice of real estate brokers by requiring licensure examinations and attendance in continuing professional education programs.



Further, *Republic Act No. 7279* ("Urban Development Housing Act"), requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 15% of the total subdivision area or total subdivision project cost and at least five (5%) of condominium area or project cost, at the option of the developer; within the same or adjacent regions, whenever feasible, and in accordance with the standards set by the HLURB. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with either the LGU or any of the housing agencies in socialized housing development.

*RA 6552, or the Maceda Law*, was promulgated to protect real estate buyers on installment basis (including residential condominium units but excluding industrial and commercial lots) by giving the buyers a total of at least 60-day grace period within which to pay any unpaid installments without any interest. RA 6552 also requires the sellers of real estate to give the buyers a refund of at least 50% of total payments made should the sale be cancelled provided the buyers have paid at least two years of installments. RA 6552 covers the business of the Company as it applies to all transactions or contracts involving the sale or financing of real estate through installment payments.

*Shopping malls* are regulated by the local government unit of the city or municipality where the shopping mall is located. Shopping mall operators must secure a mayor's permit or municipal license before operating. Shopping mall operators must also comply with the provisions of *Republic Act No. 9514 or the Fire Code*, and other applicable local ordinances. Shopping malls that have restaurants and other food establishments as tenants must obtain a sanitary permit from the Department of Health. Shopping malls that discharge commercial wastewater must apply for a wastewater discharge permit from the DENR. As a tourism-related establishment, shopping malls may obtain accreditation from the Department of Tourism ("DOT"). A shopping mall can only be accredited upon conformity with the minimum physical, staff and service requirements promulgated by the DOT.

*Hotels and resorts* follow national accreditation standards as promulgated by the DOT under *Memorandum Circular No. 2012-02* in May 2012, pursuant to the Tourism Act of 2009. The Memorandum Circular adopts the star grading system, with five levels of accommodation standards which are equivalent to one to five stars. For instance, a one-star rating will be granted to hotels which achieve 251 to 400 points (25% to 40% of the standards) and a five-star rating will be granted to hotels which achieve 851 to 1,000 points (85% to 100% of the standards). Once an application for accreditation is filed, the DOT sends an inspection team to conduct an audit of the establishment and determine compliance its classification. The Certificate of Accreditation issued by the DOT is valid for two years, unless sooner revoked. The rights over the accreditation are non-transferable.

Certain investment properties are registered with *PEZA*, and this provides significant benefits to tenants. PEZA requirements for registration of an IT park or building differ depending on whether it is located in or outside Metro Manila. These requirements include clearances or certifications issued by the city or municipal legislative council, the DAR, the National Water Resources Board, and the DENR. The PEZA is a government corporation that operates, administers, and manages designated special economic zones ("Ecozones") around the country. Ecozones are selected areas with highly developed or which has the potential to be developed into agro-industrial, commercial, banking, tourist/recreational, investment and financial centers. An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones, and tourist/recreational centers. There are several activities eligible for PEZA registration and incentives including, but not limited to, IT services, Tourism and Retirement activities. PEZA-registered enterprises located in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation of equipment, machinery and raw materials. Retirement Ecozone developers/ operators and retirement Ecozone facilities enterprises are entitled to fiscal and non-fiscal incentives.

The Group routinely secures the required government approvals for its projects during the planning and construction and marketing stages of project development, including operations of its malls and lease properties. The Group is not aware of any pending government regulation that is expected to materially affect its business. The group believes it has obtained the required government approvals relevant for each project at its current state of development.

### **Travellers**

Republic Act No. 10927 was passed and became effective in July 2017 designating casinos as covered persons under Republic Act No. 9160 (Anti Money Laundering Act), as amended. The Casino Implementing Rules and Regulations was issued by the Anti-Money Laundering Council (“AMLC”) and Appropriate Government Agencies (“AGA”) in October 2017. Casinos shall report to the AMLC all suspicious transactions as defined by law and single casino cash transaction (i.e., receipt or pay out of cash by and of a casino, paid or received by or on behalf of a customer, or such other cash transactions that may be determined by AMLC and the AGA) involving an amount in excess of Five Million Pesos (Php5,000,000.00) or its equivalent in any other currencies within five (5) working days, unless the AMLC prescribes a different period not exceeding fifteen (15) working days, from the occurrence thereof. In August 2018, casinos were required to submit covered and suspicious transactions to the AMLC following the effectivity of AMLC’s Registration and Reporting Guidelines for Casinos. Casinos are likewise required to conduct customer due diligence (CDD) in accordance with PAGCOR’s CDD Guidelines for Land-Based Casinos effective November 2018.

Travellers is subject to 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues, as provided under the Provisional License Agreement with PAGCOR. Although the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular No. 33-2013 declaring that PAGCOR, its contractees and its licensees are no longer exempt from corporate income tax under the National Internal Revenue Code of 1997, as amended, the issue on whether revenues from gaming operations of the Company are subject to income tax by the BIR under the National Internal Revenue Code of 1997 (NIRC), as amended, was settled in the case of *Bloomberry Resorts and Hotel, Inc. vs. Bureau of Internal Revenue*, G.R. No. 212530, August 10, 2016, where the Supreme Court ruled that: “As the PAGCOR Charter states in unequivocal terms that exemptions granted for earnings derived from the operations conducted under the franchise specifically from the payment of any tax, income or otherwise, as well as any form of charges, fees or levies, shall inure to the benefit of and extend to corporation(s), association(s), agency(ies), or individual(s) with whom the PAGCOR or operator has any contractual relationship in connection with the operations of the casino(s) authorized to be conducted under this Franchise, so it must be that all contractees and licensees of PAGCOR, upon payment of the 5% franchise tax, shall likewise be exempted from all other taxes, including corporate income tax realized from the operation of casinos.” This Decision has been affirmed with finality in the Supreme Court Resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the BIR. This Decision has been affirmed with finality in the Supreme Court Resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the BIR. Consistent with the decision of the Supreme Court, last June 2018, PAGCOR advises that the Office of the Solicitor General issued a legal opinion stating that the tax exemption and imposition of 5% franchise tax in lieu of all other taxes and fees for gaming operations that was granted to PAGCOR extend to all PAGCOR contractees and licensees.

Travellers is registered with PEZA as a Tourism Economic Zone. Its PEZA-registered activities include Maxims Hotel, Newport Entertainment and Commercial Center, Marriott Hotel Manila, Holiday Inn Express Manila Newport City (formerly Remington Hotel), Marriott Grand Ballroom, Marriott West Wing, Sheraton Manila Hotel, Hilton Manila and Hotel Okura Manila (formerly, Maxims II). As such, it is entitled to certain tax incentives. Hilton Manila and Sheraton Manila Hotel, through RWM’s subsidiaries, are also included in Travellers’ PEZA-registered activities.

### **GADC**

RA 10963, known as the *Tax Reform for Acceleration and Inclusion* (“TRAIN”), the first package of the comprehensive tax reform program (“CTRP”) envisioned by Pres. Duterte’s administration, seeks to correct a number of deficiencies in the tax system to make it simpler, fairer and more efficient. It took effect on January 1, 2018. Among its provisions is the imposition of excise tax on sugar-sweetened beverages (“SSB”), a measure meant to encourage consumption of healthier products to help promote a healthier Philippines. The products covered by the SSB excise tax under TRAIN are sweetened juice drinks, sweetened tea, all carbonated or non-alcoholic beverages with added sugar, including those with caloric and non-caloric sweeteners, flavored water, energy drinks, sports drinks, other powdered drinks not classified as milk. This additional per liter cost of volume capacity for soft drinks and juice drinks prompted GADC to reevaluate pricing of certain products. Changes in consumer spending and further pricing re-alignments remain as possibilities going forward. GADC will continue to prioritize its value strategy.

## Others

*Republic Act No. 10667*, otherwise known as the *Philippine Competition Act* was passed into law on July 21, 2015 and took effect on August 8, 2015. It is the first antitrust statute in the Philippines, enacted to attain a more equitable distribution of opportunities, income and wealth by enhancing economic efficiency; promoting free and fair competition in trade, industry and all commercial economic activities; preventing economic concentration and penalizing all forms of anti-competitive agreements. The law applies to any person or entity engaged in any trade, industry or commercial economic activity in the Philippines. Moreover, the law applies to international trade activities which have direct, substantial and reasonably foreseeable effects on the trade, industry or commerce in the Philippines. On March 21, 2016, the *Implementing Rules and Regulations* (“IRR”) of RA 10667 was issued to set forth the guidelines for the implementation of the said law.

The Group takes into account the provisions of RA 10667 and ensures that its business decisions and operations are within the parameters set forth by the Philippine Competition Act and that its business objectives are aligned with the constitutional goals for the national economy.

*RA 10173, or the Data Privacy Act*, was enacted in 2012 to protect personal information in the information and communications systems in both the government and private sectors. It aims to protect the right to privacy while promoting free flow of information for growth and innovation. This law is intended to provide parameters for the collection, processing, retention and disposal of personal data. The law also provided for the creation of the National Privacy Commission (NPC), the government agency mandated to administer and implement RA 10173 and to monitor and ensure the country's compliance with the international standards of data protection. In September 9, 2016, the Implementing Rules and Regulations (IRR) for RA 10173 was issued.

The law mandates that processing of personal data should, in all cases, adhere to the general data privacy principles of transparency, legitimate purpose and proportionality. Violation of the provisions of the law is subject to civil and criminal penalties, which may range from P500,000.00 to P5,000,000.00 in fines and eighteen months to six years imprisonment term. Personal data refers to both personal information and sensitive personal information. Personal information refers to any information that can identify or ascertain the identity of an individual, including name and image of the individual. Sensitive personal information refers to information which has material impact on the well-being of the individual, including personal information about an individual's race, ethnic origin, marital status, age, color, religious and political affiliations, health, education, genetic, sexual life, information related to any court proceeding involving the individual, information issued by the government agencies peculiar to the individual and other information which may be specifically established by a law to be classified.

The Group is already compliant with RA 10173. It published its privacy policy and has implemented the necessary security measures to ensure the protection of the personal data that it is collecting and processing from its various stakeholders. Moreover, it is continuously working internally to monitor its compliance with RA 10173 and the rules, regulations and issuances of the NPC.

*RA 9367*, otherwise known as the *Biofuels Act of 2006*, provides for the mandatory use of biofuels. RA 9367 mandates that there shall be a minimum 1% biodiesel blend and 5% bioethanol blend by volume in all diesel and gasoline fuels, being distributed and sold in the country, provided that the biodiesel and bioethanol blends conform to the standards set forth under the Philippine National Standards. In order to encourage investments in the biofuels industry, the government, in addition to applicable incentives and benefits under the existing laws, rules and regulations, provided for an incentive scheme which includes 0% specific tax on local and imported biofuels component per liter of volume, VAT exemption on the sale of raw material used in the production of biofuels, exemption from wastewater charges for water effluents for the production of biofuels and potential financial assistance from government financial institutions.

At present, the government, through the Sugar Regulatory Administration, Department of Energy, Bureau of Internal Revenue and Bureau of Customs, is working hand in hand with the private sector to further develop the biofuels industry, with the vision of producing enough biofuels for local and international distribution.

***b.12. Research And Development***

The regular research and development activities of the group for the past three years have not amounted to a significant percentage of revenues. There are no new products or design being developed that would require a significant amount of the group's resources.

***b.13. Compliance With Environmental Laws***

All Philippine development projects, installations and activities located in areas surrounding the Laguna Lake are subject to regulatory and monitoring powers of the Laguna Lake Development Authority ("LLDA"). Since the glass plant and the brandy manufacturing complex are located in this area, permits to operate are being renewed with LLDA on a yearly basis.

Development projects that are classified by Philippine law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate ("ECC") prior to commencement. The Department of Environment and Natural Resources ("DENR") through its regional offices or through the Environmental Management Bureau ("EMB"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement ("EIS") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("IEE") to the proper DENR regional office. While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the project's environmental effects. The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein.

In Scotland, WMG has an environmental policy which commits it to ensure that its activities are conducted in ways which comply with the law and, so far as is reasonably and commercially practicable, do not harm the environment. In Spain, Grupo Emperador considers it necessary to preserve the environment for its business to be viable long term and it is its main interest to take care and respect the environment as one of the pillars of its business culture.

The Company and its subsidiaries have not incurred material costs to comply with environmental laws.

***b.14. Number Of Employees***

As of December 31, 2018, the Group has a total workforce of 47,635 personnel categorized by business segment as follows:

	End-2018	Anticipated Hiring in 2019
GADC.....	36,550	.....19,245
Travellers.....	5,084	.....1,910
Megaworld.....	1,145	
GERI.....	832	
Empire East.....	654	65
Suntrust.....	434	.....66
Emperador.....	2,924	
Emperador UK.....	502	
Grupo Emperador Spain...	254	
Others.....	12	
<b>Total</b> .....	<b>47,635</b>	<b>.....21,286</b>

The Group intends to hire additional employees in accordance with operational requirements.

Except for AWG and WML, none of the Company's or its subsidiaries' employees are formally covered by a collective bargaining agreement and represented by a labor union.

AWG has a renewed five-year collective bargaining agreement with its production employees covering the period up to January 20, 2020. The employees also agree to follow certain grievance procedures and to refrain from strikes during the term of the agreement. WML has recognition agreements with both UNITE and GMB trade unions and a three-year wage agreement has recently been put in place. Bodegas Fundador together with the rest of Jerez region companies has closed a collective wage agreement with the trade union and employees board members last November 2016 which will be in force until 2020.

Megaworld, EDI and WML maintain each a funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee bank covering all regular full-time employees. GADC has a funded, defined benefit contribution retirement plan covering all regular full-time employees wherein employees are allowed to make voluntary contribution. GERI has an unfunded, non-contributory defined benefit plan covering all regular employees. Travellers is in the process of registering its non-contributory retirement plan with the Bureau of Internal Revenue. The rest in the Group have no established corporate retirement plans. (See Note 27.2 to the Consolidated Financial Statements)

Employees of sub-franchisees do not form part of GADC's workforce except for certain members of the sub-franchisee management staff. Regular employees of GADC are beneficiaries of a bonus program, determined by, among others, the level of profits, performance appraisals and the employee's position and salary level.

The Group has not experienced any disruptive labor disputes, strikes or threats of strikes, and management believes that the Group's relationship with its employees in general is satisfactory.

#### ***b.15. Major Business Risks and Management***

Risks are integral part of business. Opportunity for advancement cannot be achieved without taking risks. This is why the Company and its subsidiaries adopted a policy whereby risks are identified before they cause significant trouble for the business. They carefully prepare structured/strategic plans to anticipate the inherent risks in their activities and set up methods to mitigate the effects of these risks. Risks are prioritized based on their impact to business, and probability of occurrence. There is a monitoring system that keeps track of the indicators and the actions/corrections undertaken. Feedbacks, both internal and external, are important for current and emerging risks.

The Group's risk management is coordinated with the Board of Directors and focuses on actively securing short-to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns. The Group does not actively engage in the trading of financial assets for speculative purposes.

The major risks that the present business faces include:

1. *Hazards and natural or other catastrophes.* The Group's assets are always exposed to losses or impairment through fire and natural or man-made disasters and accidents that may materially disrupt operations and result in losses. In particular, damage to project structures resulting from such natural catastrophes could also give rise to claims from third parties or for physical injuries or loss of property. EDI, Whyte and Mackay, Bodegas Fundador, Pik-Nik and GADC also run the risk of contamination through tampering of ingredients, bottles or products that could result in product recall or food poisoning which in turn could create negative publicity that could adversely affect sales. Safety precautionary measures have been undertaken and installed within the operating system. Adequate insurance policies are likewise taken to cover from these risks or mitigate effect of uninsured losses.
2. *Regulatory developments.* The Group operates in highly regulated business environment. For example, in the property development and integrated tourism industries, it is required that a number of permits and approvals be obtained for development plans at both the national and local levels. Travellers is subject to gaming regulations for its casino operations. In the alcohol industry, there are restrictions on advertising, marketing and sales of alcoholic beverages to consumers and restrictions governing the operation of manufacturing facilities. In the QSR industry, GADC is subject to retail trade and other industry specific regulations.



The group's results of operations could be affected by the nature and extent of any new legislation, interpretation or regulations, including the relative time and cost involved in procuring approvals for projects. If the group fails to meet safety, health and environmental requirements, it may also be subject to administrative, civil and criminal proceedings initiated by the Government, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the Group, as well as orders that could limit or halt its operations. The Group, thus, keeps abreast of current happenings and immediately institute measures to contain any adverse effect on the group.

3. *Money laundering and cheating at gaming areas.* Casino and gaming activities are cash intensive and involve significant amounts of revenue daily. Customers may seek to influence their gaming returns through cheating or other fraudulent methods. Fraudulent activities, including collusion and automated play, could cause Travellers and its customers to experience losses, harm its reputation and ability to attract customers, and materially and adversely affect its business, goodwill, financial condition and results of operations. Travellers takes numerous preventive and mitigating measures for the handling of chips, cash and gaming equipment. It uses special technologies to prevent and detect potential fraudulent and counterfeiting activities as well as high value and suspicious transactions.

In 2017, casino operators have been included in the coverage of the Anti-Money Laundering Act. Any violation of the Anti-Money Laundering Act, as amended, which designated casinos as covered persons or the Casino Implementing Rules and Regulations may result to the imposition of penalties and could have an adverse effect on Travellers' reputation. Travellers has taken appropriate steps to fully comply therewith. Internal control policies and procedures, employee training, and compliance programs are also continuously being implemented

4. *Supply of raw materials and packaging materials.* Materials used in production demand high quality and specialty. The raw materials that GADC and Emperador group use, such as distilled neutral spirit, brandy distillates, chicken, beef and paper, are largely commodities and are subject to price volatility caused by changes in supply and demand, weather conditions, fuel costs for transportation and production, agricultural uncertainty and government controls. Megaworld, GERI and Travellers source construction materials such as lumber, steel and cement for its ongoing projects, and may also experience shortages or increases in prices. Rising price changes will result in unexpected increases in production or construction costs and decreases in gross margins if such increased costs cannot be passed on to consumers or buyers. If these costs are passed on, any increase in prices could materially affect demand for and the relative affordability of such products. Purchasing, therefore, keeps posted about supply sufficiency in the market and always looks out for new potential sources.
5. *Consumer tastes, trends and preferences.* Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends, leisure activity patterns and a downturn in economic conditions, which may reduce customers' willingness to purchase premium branded products or properties. In addition, concerns about health effects due to negative publicity regarding alcohol or fast food consumption, negative dietary effects, project location, regulatory action or any litigation or customer complaint against companies in the industry may have an adverse effect on results of operations. Any significant changes in consumer preferences and failure to anticipate and react to such changes could result in reduced demand for consumer products or projects and erosion of its competitive and financial position. Likewise, the launch and ongoing success of new products is uncertain as is their appeal to customers. Product innovation and responsiveness to changing consumer tastes and trends, therefore, have been important aspects of the group's ability to sell their products.
6. *Competition.* Each of the Company's primary business operations is subject to intense competition. Some competitors may have substantially greater financial and other resources than EMP, MEG, GERI, Travellers or GADC, which may allow them to undertake more aggressive marketing and to react more quickly and effectively to changes in the markets and in consumer preferences. In addition, the entry of new competitors into any of the Company's primary business segments may reduce the Company's sales and profit margins. Product innovation and premiumization have been the Group's key response to competition.

7. *Interests of joint development partners.* Megaworld and GERI obtain a significant portion of its land bank through joint development agreements with landowners, as part of its overall land acquisition strategy and intends to continue to do so. A joint venture involves special risks where the venture partner may have economic or business interests or goals inconsistent with or different from those of the Group.

A further discussion on financial risk management objectives and policies is presented in the notes to the consolidated financial statements.

## 2. PROPERTIES

The following are the principal properties owned or leased by the Group, including those reserved for future developments as of December 31, 2018:

Description	Location	Owned/Limitations on Ownership
<b>Lots &amp; Facilities</b>		
Brandy manufacturing facility	Santa Rosa, Laguna	Owned
Brandy manufacturing facility-Annex	Biñan, Laguna	Owned
Land	Biñan, Laguna	Owned
Alcohol distillery plants	Nasugbu and Balayan, Batangas	Owned
Glass manufacturing plant	Canlubang Industrial Estate, Calamba, Laguna	Owned
Warehouse Town – a warehouse complex	Caloocan City	Owned
Vineyard estates	Spain	Owned
Bottling centers, wineries, Complex, distillery, warehouses	Spain	Owned
Industrial facilities	Spain	Owned by Joint venture
Real estate properties	Spain	Owned
Malt distilleries (4), grain distillery (1)	Scotland, UK	Owned
Bottling facility	Scotland, UK	Leased
Warehouses	Scotland, UK	Owned; leased
Winery	Mexico	Owned
Several parcels for McDonald’s use	Various locations	Owned
Lot – Citiwood Heights	EDSA, Quezon City	Owned
<b>Condominium Units and Subdivision Lots Under Development – Megaworld</b>		
Uptown Ritz Residences	Fort Bonifacio, Taguig City	Joint Venture
Uptown Parksuites Residence	Fort Bonifacio, Taguig City	Joint Venture
The Florence 1-3	McKinley Hill	Owned
St. Moritz Private Estate Cluster One & Two	McKinley West, Fort Bonifacio	Joint Venture
The Albany Luxury Residences- Kingsley	McKinley West, Fort Bonifacio	Joint Venture
One Eastwood Avenue 2	Eastwood City, Quezon City	Owned
Manhattan Plaza	Quezon City	Joint Venture
One Madison Place 2-3	Iloilo City	Owned
Lafayette Park Square	Iloilo City	Owned
The Palladium	Iloilo City	Owned
One Manchester Place 1 & 2	Mactan Newtown, Cebu	Owned
Greenbelt Hamilton 2	Makati City	Owned
Salcedo SkySuites	Makati City	Owned
The Ellis	Makati City	Owned
Noble Place	Manila City	Joint Venture
Eastwood Global Plaza Luxury Residence	Eastwood, Quezon City	Owned
San Antonio Residences East and West	Gil Puyat Ave., Makati City	Owned
Forbes Hill	Northhill Gateway, Bacolod	Joint Venture
Saint Dominique	Iloilo City	Owned
Saint Honore	Iloilo City	Owned
Maple Grove Commercial District	General Trias, Cavite	Joint Venture
Vion Tower	Pasong Tamo, Makati City	Joint Venture
La Victoria Global Residences	Mactan Newtown, Cebu	Owned
One Regis	The Upper East, Bacolod City	Owned
Park McKinley West	McKinley West, Fort Bonifacio	Joint Venture
Uptown Arts	Uptown Bonifacio, Taguig	Joint Venture
18 Avenue de Triomphe	Arcovia City, Pasig City	Owned

Description	Location	Owned/Limitations on Ownership
The Verdin at Maple Grove	General Trias, Cavite	Owned
Condominium Units in Completed Projects– Megaworld		
One Central	Makati City	Owned
Greenbelt Madison	Makati City	Owned
Greenbelt Chancellor	Makati City	Owned
Greenbelt Radisson	Makati City	Owned
Greenbelt Excelsior	Makati City	Joint Venture
Greenbelt Hamilton 1	Makati City	Owned
Paseo Parkview Suites 1,2	Makati City	Owned
Two Central	Makati City	Owned
Paseo Heights	Makati City	Owned
Three Central	Makati City	Owned
The Manhattan Square	Makati City	Joint Venture
Viceroy 1-4	McKinley Hill	Owned
115 Upper McKinley	McKinley Hill	Joint Venture
McKinley Hill Garden Villas	McKinley Hill	Joint Venture
The Woodridge 1,2	McKinley Hill	Joint Venture
Tuscany Private Estate	McKinley Hill	Joint Venture
Stamford Executive Residences	McKinley Hill	Owned
Morgan Suites Executive Residences	McKinley Hill	Owned
The Venice Luxury Residences - Alessandro	McKinley Hill	Owned
The Venice Luxury Residences – Bellini	McKinley Hill	Owned
The Venice Luxury Residences – Carusso	McKinley Hill	Owned
The Venice Luxury Residences – Domenico	McKinley Hill	Owned
The Venice Luxury Residences – Emanuele	McKinley Hill	Owned
The Venice Luxury Residences- Giovanni	McKinley Hill	Owned
The Bellagio 1,2,3	Fort Bonifacio	Joint Venture
Forbeswood Heights	Fort Bonifacio	Joint Venture
Forbeswook Parklane 1 & 2	Fort Bonifacio	Joint Venture
8 Forbestown Road	Fort Bonifacio	Joint Venture
One Uptown Residence	Fort Bonifacio	Joint venture
8 Newtown Boulevard	Mactan Newtown, Cebu City	Owned
One Pacific Residence	Mactan Newtown, Cebu City	Owned
150 Newport Boulevard	Newport City	Joint Venture
The Parkside Villas	Newport City	Joint Venture
The Residential Resort at Newport	Newport City	Joint Venture
Palm Tree Villa -1 & 2	Newport City	Joint Venture
Eastwood Le Grand 1 - 3	Eastwood City	Owned
Eastwood Parkview 1 & 2	Eastwood City	Owned
81 Newport Boulevard	Newport, Pasay City	Joint Venture
101 Newport Boulevard	Newport, Pasay City	Joint Venture
One Eastwood Avenue 1	Eastwood City, Quezon City	Owned
Grand Eastwood Palazzo	Eastwood City	Owned
One Central Park	Eastwood City	Owned
One Orchard Road 1 - 3	Eastwood City	Owned
The Eastwood Excelsior	Eastwood City	Owned
The Eastwood Lafayette 1,2,3	Eastwood City	Owned
One Lafayette Square	Makati City	Owned
Two Lafayette Square	Makati City	Owned
Marina Square Suites	Manila City	Owned
Greenhills Heights	San Juan City	Joint Venture
Golf Hill Gardens	Quezon City	Owned
Manhattan Parkway 1-3	Quezon City	Joint Venture
Manhattan Heights Tower A, B and D	Quezon City	Joint Venture
Manhattan Parkview 1-3	Quezon City	Joint Venture
Manhattan Parkview Garden	Quezon City	Joint Venture
Golf Hills Terraces	Old Balara, Quezon City	Joint Venture
Kentwood Heights	Cubao, Quezon City	Owned
Narra Heights	Cubao, Quezon City	Owned
Mckinley West Subdivision	McKinley West, Taguig City	Joint Venture
El Jardin Del Presidente 1,2	Quezon City	Owned
8 Wack Wack Road	Mandaluyong City	Owned
Wack Wack Heights	Mandaluyong City	Owned

Description	Location	Owned/Limitations on Ownership
Cityplace Binondo A&B	Manila City	Owned
One Beverly Place	San Juan	Joint Venture
Iloilo Boutique Hotel	Iloilo City	Owned
One Madison Place 1	Iloilo City	Owned
Viceroy Tower 1 & 2	Fort Bonifacio	Owned
The Venice Luxury Residences - Fiorenzo	Fort Bonifacio	Owned
Greenbelt Parkplace	Makati City	Owned
Belmont Luxury Hotel	Newport, Pasay City	Joint Venture
Savoy Hotel	Newport, Pasay City	Joint Venture
Brentwood Heights	Parañaque City	Owned
Sherwood Heights	Parañaque City	Owned
<b>Rental Properties - Megaworld<sup>(1)</sup></b>		
Paseo Center	Makati City	Owned
The World Center	Makati City	Owned
California Garden Square Retail	Mandaluyong City	Owned
City Place Retail Mall	Manila City	Owned
Lucky Chinatown Mall	Manila City	Owned
One Beverly Place Retail	San Juan	Owned
Corinthian Hills Retail	Quezon City	Owned
Global One	Eastwood City	Owned
Techno Plaza 1	Eastwood City	Owned
Techno Plaza 2 Units	Eastwood City	Joint Venture
1800 Eastwood Avenue	Eastwood City	Owned
1880 Eastwood Avenue	Eastwood City	Owned
Cyber One Units	Eastwood City	Owned
IBM Plaza	Eastwood City	Owned
ICITE	Eastwood City	Owned
Eastwood City Walk	Eastwood City	Owned
Eastwood Mall	Eastwood City	Owned
Cyber Mall	Eastwood City	Owned
E-Commerce Plaza	Eastwood City	Owned
Eastwood Global Plaza Corporate Center	Eastwood City	Owned
Commerce and Industry Plaza	McKinley Hill	Ground Lease
One Campus Place	McKinley Hill	Ground Lease
8 Campus Place	McKinley Hill	Ground Lease
8 Upper McKinley Road	McKinley Hill	Owned
Science Hub Towers	McKinley Hill	Ground Lease
The Venice Piazza	McKinley Hill	Ground Lease
Three World Square	McKinley Hill	Owned
Two World Square	McKinley Hill	Owned
One World Square	McKinley Hill	Owned
McKinley Parking building	McKinley Hill	Owned
Venice Corporate Center	McKinley Hill	Ground Lease
The Venice Canal Mall	McKinley Hill	Ground Lease
Woodridge Residences	McKinley Hill	Joint Venture
Tuscany Retail	McKinley Hill	Joint Venture
Southeast Asian Campus	McKinley Hill	Ground Lease
Burgos Circle	Fort Bonifacio, Taguig City	Joint Venture
Uptown Parade	Uptown Bonifacio, Taguig City	Joint Venture
Uptown Place Mall	Uptown Bonifacio, Taguig City	Joint Venture
One World Center	Mactan Newtown, Cebu	Owned
Two World Center	Mactan Newtown, Cebu	Owned
Richmonde Iloilo Hotel & Richmonde Tower	Iloilo Business Park, Iloilo City	Owned
One Global Center	Iloilo Business Park, Iloilo City	Owned
Emperador Steel Parking Building	Fort Bonifacio, Taguig City	Ground Lease
Uptown Place Towers	Uptown Bonifacio, Taguig City	Joint Venture
8 Newtown Boulevard	Mactan Newtown, Cebu	Owned
One Techno Place	Iloilo Business Park, Iloilo City	Owned
Two Global Center	Iloilo Business Park, Iloilo City	Owned
Festive Walk Mall Annex	Iloilo Business Park, Iloilo City	Owned
Festive Walk Office Tower	Iloilo Business Park, Iloilo City	Owned
Hotel Lucky Chinatown	Manila City	Owned
Festive Walk Mall	Iloilo Business Park, Iloilo City	Owned
Festive Walk Parade 2B	Iloilo Business Park, Iloilo City	Owned
Mactan Alfresco	Mactan Newtown, Cebu	Owned
Tower One Plaza Magellan	Mactan Newtown, Cebu	Owned

Description	Location	Owned/Limitations on Ownership
McKinley Hill (Phase 3) Lots One West Campus Two West Campus Three West Campus Five West Campus Six West Campus Eight West Campus Ten West Campus McKinley West Steel Deck Parking 331 Building Three Techno Place 81 Newport Square Davao Finance Center	McKinley Hill McKinley West, Taguig City McKinley West, Taguig City McKinley West, Taguig City McKinley West, Taguig City McKinley West, Taguig City McKinley West, Taguig City McKinley West, Taguig City McKinley West, Taguig City McKinley West, Taguig City Makati City Iloilo Business Park, Iloilo City Newport City, Pasay City Davao Park District, Davao City	Ground Lease Joint Venture Joint Venture Joint Venture Joint Venture Joint Venture Joint Venture Joint Venture Joint Venture Joint venture Owned Owned Joint Venture Owned
<b>Hotels</b> The Richmond Hotel <sup>(2)</sup> Eastwood Richmode Hotel <sup>(2)</sup> Belmont Luxury Hotel	Mandaluyong City Quezon City Newport City, Pasay City	Owned Owned Joint Venture
<b>Condotels under development</b> Savoy Hotel Mactan Newtown Belmont Hotel Mactan Newtown Belmont Hotel Iloilo	Mactan Newtown, Cebu Mactan Newtown, Cebu Iloilo Business Park, Iloilo City	Owned Owned Owned
<b>Completed Projects – Empire East</b>		
Little Baguio Gardens Laguna BelAir 1 and 2 Governors Place Gilmore Heights  Kingswood Tower San Francisco Gardens Greenhills Garden Square Central Business Park Xavier Hills California Garden Square Laguna BelAir 3 Laguna BelAir 4 San Lorenzo Place The Sonoma <b>Ongoing Projects- Empire East</b> The Cambridge Village Little Baguio Terraces Pioneer Woodlands The Paddington Place The Rochester Covent Gardens Kasara Urban Resort Residences Southpoint Science Park Mango Tree Residences	San Juan, Metro Manila Don Jose, Sta. Rosa, Laguna Mandaluyong City Gilmore Ave. cor N.Domingo, Quezon City Makati City Mandaluyong City Santolan Road, Quezon City Manggahan, Pasig City Quezon City Libertad St., Mandaluyong City Biñan, Laguna Sta. Rosa City Makati City Sta. Rosa City  Cainta, Rizal San Juan, Metro Manila Mandaluyong City Mandaluyong City Pasig City Sta. Mesa, Manila Eagle St., Pasig City Gimalas, Balayan, Batangas San Juan City	Owned Joint Venture Joint Venture Joint Venture  Joint Venture Joint Venture Owned Owned Joint Venture Owned Owned Owned Owned Joint Venture Joint Venture  Owned Joint Venture Joint Venture Owned Owned Owned Owned Owned Owned
<b>Subdivisions, condominiums, condotels, townhouses and leisure development projects - GERI:</b>		
8 Sto. Domingo Place Caliraya Springs Cathedral Heights Capitol Plaza Fairways & Bluewater Eastland Heights (Forest Hills) Goldridge Estate Holiday Homes Magnificat Executive Village Mango Orchard Plantation Manila Southwoods	Quezon City Cavinti, Laguna Quezon City Quezon City Boracay, Aklan Antipolo City Guiguinto, Bulacan Gen. Trias, Cavite Lipa, Batangas Naic, Cavite Carmona & GMA Cavite	Joint Venture Joint Venture Joint Venture Co-development Owned Joint Venture Joint Venture Joint Venture Joint Venture Joint Venture Joint Venture



Description	Location	Owned/Limitations on Ownership
Monte Cielo De Naga	Naga City	Joint Venture
Monte Cielo De Peñafrancia	Naga City	Joint Venture
Mountain Meadows	Cagayan De Oro	Joint Venture
Newcoast Village	Malay, Aklan	Owned
Newcoast Shophouse District	Malay, Aklan	Joint Venture
Newcoast Boutique Hotel	Malay, Aklan	Joint Venture
Newport Hills	Lian, Batangas	Joint Venture
Nasugbu Harbour Town	Nasugbu, Batangas	Joint Venture
Northpointe	Baguio City	Joint Venture
Pahara at Southwoods	GMA, Cavite	Joint Venture
Palacio Real	Calamba, Laguna	Joint Venture
Palmridge Point	Talisay, Batangas	Joint Venture
Parco Bello	Muntinlupa City	Joint Venture
Alabang West	Las Piñas City	Joint Venture
Plaridel Heights	Plaridel, Bulacan	Joint Venture
Puerto Del Mar	Lucena City	Joint Venture
Residencia Lipa	Lipa, Batangas	Joint Venture
Riverina	San Pablo City	Joint Venture
Savoy Hotel Boracay	Malay, Aklan	Owned
Sta. Barbara Heights Residential Estate	Sta. Barbara, Iloilo	Joint Venture
Domaine Le Jardin	Laurel, Batangas	Owned
Tierra Vista	Lipa, Batangas	Joint Venture
Windsor Heights	Tagaytay	Joint Venture
Vineyard Residences	Laurel, Batangas	Owned
Villa Maria	Fairways&Bluewater,Boracay	Owned
Villa Margarita	Fairways&Bluewater,Boracay	Owned
Villa Michaela	Fairways&Bluewater,Boracay	Owned
Villa Lucia	Fairways&Bluewater,Boracay	Owned
Villa Catalina	Fairways&Bluewater,Boracay	Owned
Villa Vittoria	Fairways&Bluewater,Boracay	Owned
Villa Muligan	Fairways&Bluewater,Boracay	Owned
Holland Park	Biñan, Laguna	Joint Venture
Tulip Gardens	Biñan, Laguna	Joint Venture
Oceanway Residences	Malay, Aklan	Owned
Belmont Hotel Boracay	Malay, Aklan	Owned
Chancellor Hotel Boracay	Malay, Aklan	Owned
Ocean Garden Villas	Malay, Aklan	Owned
Lucerne at Domaine Le Jardin	Laurel, Batangas	Owned
The Belvedere	Laurel, Batangas	Owned
Vineyard Manor	Laurel, Batangas	Owned
The Hamptons at Caliraya	Cavinti, Laguna	Joint Venture
The Fifth	Pasig City	Joint Venture
<b>Rental Properties- GERI</b>		
Southwoods Mall	Biñan, Laguna	Owned
Southwoods Office Towers	Biñan, Laguna	Owned
Twin Lakes Shopping Village	Laurel, Batangas	Owned
Renaissance 1000 (Office Tower)	Pasig City	Owned
<b>Hotels under Travellers</b>		
Marriott Hotel	Newport City	Owned
Maxims Hotel	Newport City	Owned
Holiday Inn Express Manila Newport City	Newport City	Owned
Hilton Manila	Newport City	Owned
Sheraton Manila Hotel	Newport City	Owned
Courtyard	Iloilo City	Owned

**Notes:**

(1) Lease terms and rental rates vary depending on the property and the lessee.

(2) The Richmond Hotel and Eastwood Richmond Hotel are operated by a subsidiary of Megaworld.

In addition, there are various operating lease agreements for McDonald's restaurant sites, offices and other facilities. These non-cancelable lease agreements are for initial terms of 5-40 years and, in most cases, provide for rental escalations, additional rentals based on certain percentages of sales and renewal options for additional periods of 5-25 years.

The following site map details the principal properties owned or leased by Travellers, including those reserved for future developments as of December 31, 2018.



While the Group has sufficient land for future development, it continuously seeks opportunities to acquire and develop land in prime locations through purchase, joint venture arrangements or otherwise

### 3. LEGAL PROCEEDINGS

There are no material litigations or claims pending or, to the best knowledge of the Company, threatened against the Company or any of its subsidiaries or associates or any of their properties that would adversely affect the business or financial position of the Company or any of its subsidiaries or associates.

### 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There are no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### 5. MARKET PRICE AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### a. Market Information

The Company's common shares are traded on the Philippine Stock Exchange under the symbol of AGI. The closing price of the said shares on April 8, 2019 is P16.39. The trading prices of the said shares for each quarter within the last two years and subsequent interim period are set forth below:

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
High	13.90	15.48	17.30	17.18	16.50	14.5	14.78	12.48	16.30
Low	12.20	12.68	13.06	15.06	12.56	11.52	11.56	10.18	11.74

(Source: PSE Research Dept.)

**b. Shareholders**

As of February 28, 2019, the Company had 1,002 stockholders, including nominees, holding 10,004,328,439 common shares and the Top Twenty Stockholders were as follows:

<i>Rank</i>	<i>Stockholder</i>	<i>No. of Shares Held</i>	<i>Per Cent to Total</i>
1	The Andresons Group, Inc.	4,081,664,094	40.799
2	PCD Nominee Corporation (Non-Filipino) *	2,620,207,267	26.191
3	PCD Nominee Corporation (Filipino)*	1,374,501,947	13.739
4	Altavision Resources, Inc.	451,574,334	4.514
5	Yorkshire Holdings, Inc.	255,773,508	2.556
6	Asiagroup Holdings, Inc.	220,004,000	2.199
7	Globaland Holdings, Inc.	220,004,000	2.199
8	Grand Bel Air Holdings, Inc.	220,004,000	2.199
9	Le Bristol Holdings, Inc.	216,100,000	2.160
10	California Orchard Growers Investments, Inc.	120,000,000	1.199
11	Eastwood Property Holdings, Inc.	112,600,000	1.125
12	Andrew L. Tan	63,684,078	0.636
13	Andresons Global, Inc.	30,088,596	0.301
14	Megaworld Cebu Properties, Inc.	10,000,000	0.100
15	Kingson Uy Siok Sian	5,001,100	0.050
16	Lucio W. Yan &/or Clara Y. Yan	1,000,000	0.010
17	First Centro, Inc.	364,200	0.004
18	Jianhua Su	202,500	0.002
19	American Wire & Cable Co., Inc.	200,000	0.002
20	Ramon Garcia	100,000	0.001

Please refer to Item 11 on page 76 for stockholders holding 5% or more. \* PCD Nominee Corporations (Non-Filipino and Filipino) is comprised of several nominees and the participants with 5% or more are indicated in Security Ownership on page 65.

**c. Dividends In The Two Most Recent Years And Subsequent Interim Period**

It is the Company's policy to periodically declare a portion of its unrestricted retained earnings as dividend usually in the third quarter of each year. The declaration of dividends depends upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends out of its unrestricted retained earnings only. Unrestricted retained earnings represent the net accumulated earnings of the Company, with its capital unimpaired, which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Cash dividends are subject to the approval by the Board of Directors (BOD). Stock dividends are subject to the approval by both the BOD and at least two-thirds (2/3) of the outstanding capital stock of the stockholders at a stockholders' meeting called for such purpose.

On November 26, 2018, the Company declared cash dividend of P0.10 per share, payable to all stockholders of record as of December 11, 2018, out of the unrestricted retained earnings of the Company as of December 31, 2017. No dividends were declared in 2017.

**d. Recent Sales Or Issuance Of Unregistered Or Exempt Securities, Including Recent Issuance of Securities Constituting An Exempt Transaction, Within the Past Three Years**

The Company does not have any recent sales or issuance of unregistered or exempt securities, including issuance of securities constituting an exempt transaction in the past three years.

## 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

### a. Key Performance Indicators

Presented below are the top five (5) key performance indicators of the Company and subsidiaries:

*In Million Pesos*

	2018	2017	2016	Percent Growth	
				2018	2017
<b>REVENUES</b>	<b>156,785</b>	<b>138,789</b>	<b>132,895</b>	<b>12.97%</b>	<b>4.44%</b>
<b>NET PROFIT</b>	<b>23,676</b>	<b>22,276</b>	<b>22,947</b>	<b>6.28%</b>	<b>-2.92%</b>
<b>NET PROFIT TO OWNERS OF AGI</b>	<b>15,122</b>	<b>15,192</b>	<b>14,917</b>	<b>-0.46%</b>	<b>1.84%</b>
Net profit rate	15.10%	16.05%	17.27%		
NP Attributable to parent	9.64%	10.95%	11.22%		
Return on investment/assets [NP/TA]	4.02%	4.16%	4.97%		
	31-Dec-18	31-Dec-17	31-Dec-16		
<b>TOTAL ASSETS</b>	<b>588,251</b>	<b>535,612</b>	<b>461,931</b>	<b>9.83%</b>	<b>15.95%</b>
<b>CURRENT ASSETS</b>	<b>277,726</b>	<b>250,043</b>	<b>215,061</b>	<b>11.07%</b>	<b>16.27%</b>
<b>CURRENT LIABILITIES</b>	<b>92,440</b>	<b>96,733</b>	<b>107,435</b>	<b>-4.44%</b>	<b>-9.96%</b>
Current ratio	3.0x	2.6x	2.0x		
Quick ratio	1.3X	1.2x	0.9x		

- Revenue growth – measures the percentage change in revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- Net profit growth – measures the percentage change in net profit over a designated period of time.
- Net profit rate – computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs.
- Return on asset investment [or capital employed] – the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income.
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

### b. Discussion And Analysis Of Operations

The following discussion and analysis must be read in conjunction with the submitted audited consolidated financial statements and the related notes to the consolidated financial statements.

#### b.1. Results Of Operations – By Subsidiary Groups

	MEG	EMP	RWM	GADC	Others	TOTAL
<b>2018</b>						
<b>Revenues</b>	57,272	47,038	22,522	28,620	5,432	160,884
Intercompany/ Adjustment	(366)	7	(110)	-	(3,630)	
<b>Consolidated</b>	<b>56,906</b>	<b>47,045</b>	<b>22,412</b>	<b>28,620</b>	<b>1,802</b>	<b>156,785</b>
% contribution	37%	30%	14%	18%	1%	100%
<b>Costs and expenses</b>	35,883	38,601	20,937	26,213	3,562	125,196
Intercompany/ Adjustment	(56)	(28)	(31)	(89)	9	
<b>Consolidated</b>	<b>35,827</b>	<b>38,573</b>	<b>20,906</b>	<b>26,124</b>	<b>3,571</b>	<b>125,001</b>
<b>Tax Expense</b>	<b>5,544</b>	<b>1,607</b>	<b>145</b>	<b>758</b>	<b>54</b>	<b>8,108</b>
<b>Net profit</b>	15,845	6,830	1,440	1,649	1,816	27,580
Intercompany/ Adjustment	(310)	35	(79)	89	(3,639)	
<b>Consolidated</b>	<b>15,535</b>	<b>6,865</b>	<b>1,361</b>	<b>1,738</b>	<b>(1,823)</b>	<b>23,676</b>
% contribution	66%	29%	6%	7%	-8%	100%

<b>Net profit to owners</b>	15,219	6,658	1,444	1,646	1,819	26,786
Intercompany/ Adjustment	(5,292)	(1,111)	(871)	(751)	(3,639)	
<b>Consolidated</b>	<b>9,927</b>	<b>5,547</b>	<b>573</b>	<b>895</b>	<b>(1,820)</b>	<b>15,12</b>
% contribution	66%	37%	4%	6%	-13%	100%
<b>2017*</b>	MEG	EMP	RWM	GADC	Others	TOTAL
<b>Revenues</b>	50,116	42,669	18,818	25,907	6,202	143,712
Intercompany/ Adjustment	(173)		(67)		(4,683)	
<b>Consolidated</b>	<b>49,943</b>	<b>42,669</b>	<b>18,751</b>	<b>25,907</b>	<b>1,519</b>	<b>138,789</b>
% contribution	35%	31%	15%	18%	1%	100%
<b>Costs and expenses</b>	32,346	34,813	18,320	23,501	2,178	111,158
Intercompany/ Adjustment	(1,584)	(31)	(37)	(89)	529	
<b>Consolidated</b>	<b>30,762</b>	<b>34,782</b>	<b>18,283</b>	<b>23,412</b>	<b>2,707</b>	<b>109,946</b>
<b>Tax Expense</b>	<b>4,063</b>	<b>1,503</b>	<b>218</b>	<b>755</b>	<b>28</b>	<b>6,567</b>
<b>Net profit</b>	13,707	6,353	280	1,651	3,996	25,987
Intercompany/ Adjustment	1,411	31	(30)	89	(5,212)	
<b>Consolidated</b>	<b>15,118</b>	<b>6,384</b>	<b>250</b>	<b>1,740</b>	<b>(1,216)</b>	<b>22,276</b>
% contribution	68%	29%	1%	8%	-5%	100%
<b>Net profit to owners</b>	13,146	6,322	289	1,628	4,017	25,402
Intercompany/ Adjustment	(2,894)	(1,125)	(180)	(741)	(5,270)	
<b>Consolidated</b>	<b>10,252</b>	<b>5,197</b>	<b>109</b>	<b>887</b>	<b>(1,253)</b>	<b>15,192</b>
% contribution	68%	34%	1%	6%	-8%	100%
<b>2016*</b>	MEG	EMP	RWM	GADC	Others	TOTAL
<b>Revenues</b>	44,275	40,938	23,352	22,811	5,604	136,980
Intercompany/ Adjustment	(126)	(22)	(82)	-	(3,855)	
<b>Consolidated</b>	<b>44,149</b>	<b>40,916</b>	<b>23,270</b>	<b>22,811</b>	<b>1,749</b>	<b>132,895</b>
% contribution	32%	30%	20%	17%	1%	100%
<b>Costs and expenses</b>	28,957	31,502	19,849	21,049	2,790	104,147
Intercompany/ Adjustment	3	(26)	(34)		(30)	
<b>Consolidated</b>	<b>28,960</b>	<b>31,476</b>	<b>19,815</b>	<b>21,049</b>	<b>2,760</b>	<b>104,060</b>
<b>Tax Expense</b>	<b>3,497</b>	<b>1,742</b>	<b>64</b>	<b>529</b>	<b>56</b>	<b>5,888</b>
<b>Net profit</b>	11,821	7,694	3,439	1,233	2,758	26,945
Intercompany/ Adjustment	(129)	4	(48)	-	(3,825)	
<b>Consolidated</b>	<b>11,692</b>	<b>7,698</b>	<b>3,391</b>	<b>1,233</b>	<b>(1,067)</b>	<b>22,947</b>
% contribution	51%	34%	15%	5%	-5%	100%
<b>Net profit to owners</b>	11,493	7,693	3,442	1,220	2,758	26,606
Intercompany/ Adjustment	(3,820)	(1,400)	(1,951)	(622)	(3,896)	
<b>Consolidated</b>	<b>7,673</b>	<b>6,293</b>	<b>1,491</b>	<b>598</b>	<b>(1,138)</b>	<b>14,917</b>
% contribution	52%	42%	10%	4%	-8%	100%

<b>Year-on-year Change</b>	MEG	EMP	RWM	GADC	Others	TOTAL
<b>2018</b>						
Revenues	13.94%	10.25%	19.53%	10.47%	18.76%	12.97%
Costs and expenses	16.47%	10.90%	14.35%	11.58%	31.92%	13.69%
Tax Expense	36.44%	6.94%	-33.65%	0.47%	93.93%	23.47%
Net profit	2.75%	7.86%	444.69%	-0.12%	52.32%	6.28%
Net profit to owners	-3.16%	6.75%	422.69%	1.04%	45.45%	-0.46%
<b>2017</b>						
Revenues	13.12%	4.29%	-19.42%	13.57%	-13.19%	4.44%
Costs and expenses	6.22%	10.51%	-7.73%	11.23%	-1.93%	5.66%
Tax Expense	16.21%	-13.73%	239.57%	42.57%	-51.23%	11.52%
Net profit	29.30%	-17.33%	-92.63%	41.07%	12.02%	-2.92%
Net profit to owners	33.59%	-17.42%	-92.65%	48.27%	9.98%	1.84%

-Amounts are in million Pesos. Numbers may not add up due to rounding off. Percentages are taken based on full numbers, not from the presented rounded amounts.

- At AGI consolidated level, as presented above, revenues and costs and expenses may not tally the totals as separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs or expenses at AGI consolidated level.

-2017 and 2016 were as restated to conform to 2018 presentation.

-RWM revenues are presented net of promotional allowance.



These strong performances are reflected in the profit and loss accounts, as follows:

<i>In Million Pesos</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 vs 2017</u>	<u>2017 vs 2016</u>
<b>REVENUES</b>					
Sale of goods	85,275	77,352	71,986	10.24%	7.45%
Consumer goods	47,608	43,237	41,608	10.11%	3.91%
Revenues from real estate (RE) sales	37,667	34,115	30,378	10.41%	12.30%
Rendering of services	66,177	58,292	57,952	13.53%	0.59%
Gaming	20,016	17,115	23,649	16.95%	-27.63%
Less: Promotional allowance	4,134	2,540	4,307	62.77%	-41.03%
Net Gaming	15,882	14,575	19,342	8.96%	-24.64%
Sales by company-operated quick-service restaurant	25,605	23,070	20,540	10.99%	12.32%
Franchise revenues	2,728	2,470	2,089	10.45%	18.25%
Rental income	14,741	12,458	10,572	18.33%	17.83%
Other services	7,221	5,719	5,409	26.25%	5.74%
Hotel operations	5,005	4,187	3,790	19.55%	10.47%
Other services	2,216	1,532	1,619	44.55%	-5.35%
Share in net profits of associates and joint ventures	291	273	356	6.78%	-23.31%
Finance and other income	5,042	2,872	2,601	75.57%	10.41%
<b>TOTAL</b>	<b>156,785</b>	<b>138,789</b>	<b>132,895</b>	<b>12.97%</b>	<b>4.44%</b>
<b>COSTS AND EXPENSES</b>					
Cost of goods sold	51,609	46,044	42,761	12.09%	7.68%
Consumer goods sold	31,274	28,003	26,024	11.68%	7.61%
RE sales	20,335	18,041	16,737	12.72%	7.79%
Cost of services	34,962	30,022	29,056	16.46%	3.32%
Gaming	8,546	7,748	9,042	10.30%	-14.31%
Services	26,416	22,274	20,014	18.60%	11.29%
Other operating expenses	31,577	26,996	24,961	16.97%	8.15%
Selling and marketing	13,528	9,832	10,209	23.64%	-3.69%
General and administrative	18,049	17,164	14,752	12.42%	16.35%
Finance costs and other charges	6,853	6,884	7,282	-0.45%	-5.47%
<b>TOTAL</b>	<b>125,001</b>	<b>109,946</b>	<b>104,060</b>	<b>13.69%</b>	<b>5.66%</b>
<b>TAX EXPENSE</b>	<b>8,108</b>	<b>6,567</b>	<b>5,888</b>	<b>23.47%</b>	<b>11.52%</b>
<b>NET PROFIT</b>	<b>23,676</b>	<b>22,276</b>	<b>22,947</b>	<b>6.28%</b>	<b>-2.92%</b>

Amounts in million pesos; numbers may not add up due to rounding off. n/m-not meaningful

### For the Year Ended December 31, 2018 vs. 2017

The Group closed the year 2018 with record breaking consolidated revenues and net profit as all business segments contributed well to these growth results. The Group turned in P23.7 billion **net profit**, up 6% or P1.4 billion year-on-year from P22.3 billion a year ago with **consolidated revenues** reaching P156.9 billion, up 13% or P18.0 billion year-on-year from P138.8 billion a year ago. Net profit to owners remained flat as a result of intersegment transactions.

**Megaworld**, the country's largest developer and pioneer of integrated urban townships, saw its group net profit and the portion attributable to owners respectively rising 16% and 17% year-on-year to P15.8 billion and P15.2 billion, respectively. It reported consolidated revenues growing 15% to P57.4 billion from P50.1 billion a year ago as key businesses performed at double-digit rates year-on-year. The rental income from the leasing business, comprising of office and lifestyle mall leasing, leaped 21% to P14.3 billion, as gross leasable area expanded to 1.5 million sqm. In 2018, Megaworld opened its biggest mall development outside of Metro Manila, the Festive Walk Mall in Iloilo Business Park. It also opened new community malls namely the San Lorenzo Place in Makati and The Village Alabang in Las Piñas. MEG also closed a historic deal after bagging the long-term lease contract to build the Philippine Global Service of JP Morgan Chase Bank. This contract to build the 25-storey property is regarded as the country's biggest single lease transaction to date, with around 70 thousand sqm of 'built to suit' offices for a single company.

The residential business recorded 12% growth to P38.0 billion from P34.1 billion during the same period in the previous year, contributing 66% to MEG's total consolidated revenues during the year. There

were about 25 residential projects launched in 2018, with a total sales value of around P106-billion. Megaworld also achieved P135 billion sales reservations during the year. The Megaworld-GERI-Empire East-Suntrust brands turned over 63-17-9-11 of real estate sales. In later part of 2018, the 4<sup>th</sup> residential development in the 30-hectare The Mactan Newtown in Lapu-Lapu City was introduced, named as the La Victoria Global residences reflecting the historical significance of Galleon Victoria with the target completion in 2022 in line with the commemoration of the ship's 500<sup>th</sup> year of circumnavigation. There is also the 57-storey Vion Tower that will rise along EDSA which will be highlighted by future-ready facilities. Vion Tower is set to become a landmark in this side of Makati with its illuminated tower crown. The hotel business grew its revenues by 14% to P1.5 billion from P1.3 billion in 2017. Two new hotels were launched in 2018: the 684-room Savoy Hotel Manila in Newport City and the 126-room Twin Lakes Hotel in Twin Lakes, Laurel, Batangas, which brought the number of Megaworld Hotels to seven (7) by end-2018. The group's operating results brought in 37% and 66% to AGI's consolidated revenues and net profit, respectively.

**Emperador**, the world's largest brandy company and owner of the world's 5<sup>th</sup> largest Scotch whisky manufacturer in the world, turned over P47.0 billion in 2018, a 10% climb from P42.7 billion a year ago attributed to the continuing sales growth from both the Brandy and Scotch Whisky segments, resulting in net profit rising 8% to P6.8 billion from P6.3 billion a year ago. The Scotch Whisky segment turned over revenues to external customers higher by 9% year-on-year. The business is growing not only in UK but also in other parts of the world, especially in Asia where revenues had more than doubled as brands enjoyed success across a number of markets. Own Scotch whisky label The Dalmore, the flagship malt whisky product, was again the main driver of growth as it continued to attract new consumers at the apex of the single malt category through both the Core Range and Rare Expressions. Jura with its redesigned range and exclusive Global Travel Retail range continued to attract acclaim under its 'A long way from ordinary' banner encapsulating the very special nature of this island single malt. The re-launch of Fettercairn in a new packaging, and the launch of Tamnavulin Vintage Collection in the single malt category in 2018 and the new contemporary blended malt brand Shackleton in 2017 further boosted revenues during the year. The Brandy segment, on the other hand, turned over revenues to external customers higher by 11% year-on-year. The Spanish business is growing in Spain, Philippines, UK and USA, which all together accounted for three-quarters of its revenues. Emperador Brandy remains the nationwide leader, particularly in key metro cities, amid fierce competition among local brands. Recognizing the preference of the young drinkers for variety and excitement, Emperador created a new offering for Emperador Light drinkers by pairing Emperador Light with Club Mix Lime Cordial, dubbed as 'LimeLight' and 'GreenLight'; and, in mid-September, 'the gin for the new generation' The BaR Premium Gin was launched, infused with flavors and botanicals from the gardens of Andalusia, Spain, in Pink, Lime and Premium Dry variants. Gross profit margins (GPM) on consolidated level remained healthy at 35% in both 2018 and 2017. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 32% and 40% in 2018 as compared to 35% and 33% in 2017. The group accounted for 30% of AGI's consolidated revenues and 29% for AGI's consolidated net profit.

**Travellers**, the owner and operator of RWM, reported net profit of P1.4 billion, steeply growing from P300 million a year ago. Its revenues increased 20% to P22.5 billion from last year's P18.8 billion mainly as both the gaming and non-gaming segments showed better results. Gross gaming revenues grew 17% supported by the sustained growth in all gaming segments as property visitation increased 11% averaging 28,500 per day and gaming capacity expanded to 299 tables and 1,822 slot machines, due to the opening of the ground floor gaming area of the Grand Wing. Hotel accommodations turned over P3.5 billion this year, a sharp 22% robust growth from P2.8 billion a year ago. Average occupancy rate for the four hotels in RWM - Marriott Hotel Manila, Maxims Hotel, Hilton Manila and Holiday Inn Express Manila Newport City - was 79% with a total room count of 1,811. Sheraton Manila Hotel soft opened and Hotel Okura Manila will open in the Grand Wing in 2019. RWM will have the highest number of hotel rooms for a single property once the construction of all the hotels are completed. The Courtyard was also opened last May 2018 which is Marriott's first brand in the province of Iloilo. The group contributed 14% and 6% to AGI's consolidated revenues and consolidated net profit, respectively.

**GADC**, the master franchise holder of McDonald's quick-service restaurants brand in the Philippines, ended the year with P1.6 billion stable end result despite the intensified competition and challenging market conditions. Sales revenues rose 11% or P2.5 billion, to end the year with P25.6 billion. Sales momentum is driven by value and bundle promotions as well as limited-time offers. Mcdelivery is also a consistent source of growth with it closing the year with double digit growth. Improvement on sales revenue is also pushed by 61 new stores opened during the year (half are company-owned). Systemwide same-store sales growth for the year is at 12% year-on-year. With its continued store expansion, GADC ended the year with a total store count of 620, compared to 566 stores in 2017. GADC continues to expand its footprints with its 2019 target to add 60 more NXT GEN stores in the country after initially launching 17 NXT GEN stores in 2018. NXT GEN stores come with self-ordering kiosk, modernized menu boards and cashless mode of payment which is an initiative for giving a world class experience to consumers. McDo PH also partners with other well-known delivery networks worldwide to provide more convenient options for its customers. These operating results translated into 18% and 7% of the consolidated revenues and net profit of AGI and subsidiaries.

**Revenues**, as a result of the foregoing, reached P156.8 billion in 2018, a P7.9 billion or 13% jump from last year's P138.8 billion with all segments of the group reporting favorable performances during the year. Sale of goods (real estate, alcoholic beverages, snack products) went up 10% to P85.3 billion from P77.4 billion a year ago. Service revenues (QSR, gaming, rentals, hotels, cinemas) escalated 14% or P7.9 billion ending the year with P66.2 billion as compared to P58.3 billion in 2017.

**Cost and expenses** accelerated 14% to P125.0 billion in 2018. Cost of goods sold expanded 12% or P5.6 billion mainly due to high cost of wine, new bottles and packaging for the new and re/packaged products this year and heightened contracted services and cost of land. Cost of services hiked 16% or P4.9 billion driven by higher food cost, supplies and consumables, gaming fees, utilities, employments costs and depreciation. Other operating expenses also jumped 17% or P4.6 billion as more marketing and selling expenses and general expenses were spent by the four major business segments.

**Share in net profits of associates and joint ventures** increase 7% or P18 million, due to higher net results from BLC resulting to higher share in net profit.

**Finance and other income** ballooned 76% or P2.2 billion from a year ago due to higher interest income by the Group and other miscellaneous gains, including the collection of claims and additional recoveries from the gaming business interruption.

**Tax expense** rose P1.5 billion or 23% due to higher taxable income and tax effects of deductible temporary differences for Megaworld as well as EMP especially in the Scotch Whisky segment.

### **For the Year Ended December 31, 2017 vs. 2016**

The year 2017 has been a rather challenging year for the Group.

**The Group** attained P15.3 billion **core net profit attributable to owners**, up 3% from P14.8 billion in 2016. Non-recurring loss incurred from a casualty by Travellers in 2017 was reduced by the non-recurring gain on disposal of investment by Megaworld, netting out to P120 million loss as compared to P85 million non-recurring gains in 2016. Taking into account these items, **net profit to owners** hit P15.2 billion in 2017, inching 2% from a year ago, with consolidated revenues reaching P138.7 billion on a 4% growth year-on-year.

**Megaworld**, the country's largest developer and pioneer of integrated urban townships, grew its group net profit to owners to P13.0 billion (net of P113million non-recurring gain), a 14% jump from P11.5 billion (net of P82 million non-recurring gain) a year ago. The healthy growth was underpinned by the strong performances of its key businesses in residential and hotel developments, office as well as commercial space leasing in malls and shopping centers. Consolidated revenues escalated 13% to P50.1 billion, boosted by the soar of 18% in rentals to P11.8 billion and residential sales of 12% to P34.1 billion. The Megaworld-GERI-Empire East-Suntrust brands turned over 64-15-12-9 of real estate sales. In later part of 2017, GERI launched its 2nd "integrated lifestyle community" and the group's 23<sup>rd</sup> township, the 300-hectare The Hamptons Caliraya in Lumban-Cavinti, Laguna, where nature becomes the focal point of development.

The group's existing landbank offers abundant nature reserves that can be nurtured and preserved as part of its future community development. Megaworld has turned over 1,000 residential units in Makati Central Business District in 2017 which included the 30-storey Paseo Heights and 50-storey Three Central, and four more towers are under construction. The group also opened its 14<sup>th</sup> lifestyle mall in 2017, which is GERI's first full-scale mall, the Southwoods Mall, the first and only full-scale mall development within the Biñan-Carmona area. The group's operating results brought in 35% and 68% to AGI's consolidated revenues and net profit, respectively.

**Emperador**, the world's largest brandy company and owner of the world's 5<sup>th</sup> largest Scotch whisky manufacturer in the world, turned over P42.6 billion in 2017, a modest hike of 4% year-on-year attributed to strong sales from offshore subsidiaries. The Scotch Whisky segment turned over revenues to external customers higher by 7% year-on-year. Own Scotch whisky labels The Dalmore and Jura remained to be the growth drivers, with strong sales in UK, Asia, USA, Greater Europe, Latin America and Travel Retail. Jura, with new bottle and packaging upgrade, has a significant launch of the redesigned range in the US. The Brandy segment, on the other hand, turned over revenues to external customers higher by 3% year-on-year. Spanish brandies Fundador and Terry Centenario and Harveys Bristol Cream sherry enjoyed a good year, with sales growing in Spain, UK and the Philippines. It was a challenging year for Emperador Brandy, yet it keeps its lead in the domestic market. Higher cost of goods sold, strategic marketing expenses and unrealized foreign currency losses dragged clipped net income to P6.3 billion from P7.7 billion a year ago. Nevertheless, gross profit margins (GPM) remained healthy at 35% in 2017 and 38% in 2016. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 35% and 33% in 2017 and 40% and 30% in 2016. The group accounted for 31% and 29% of AGI's consolidated revenues and net profit, respectively.

**Travellers**, the owner and operator of RWM, reported a 5% increase in non-gaming revenues to P4.0 billion driven by hotel and MICE operations. Gross gaming revenues continued to recover after the loss of the second-floor gaming area in June 2017, increasing 22% in the fourth quarter as compared to the previous quarter and ending 2017 at P17.1 billion as property visitation continued to improve averaging 27,000 in the fourth quarter, up from 23,000 in the third quarter. The casino was closed for 27 days in June and the second-floor gaming area has not been opened. Average occupancy rate for the three hotels stayed high, hovering around the 80% mark, led by Remington Hotel (now Holiday Inn Express) at almost 90%. Total gross revenues amounted to P21.1 billion for the current year with EBITDA of P3.0 billion. The group contributed 15% and 1% to AGI's consolidated revenues and consolidated net profit, respectively.

**GADC**, the master franchise holder of McDonald's quick-service restaurants brand in the Philippines, continued to grow business in 2017 exceeding targets with margins growing at pace with topline sales. Within the QSR market, McDonald's outpaced reported market growth at 8.9%. Net profit surged 34% to P1.6 billion from P1.2 billion a year ago. Sales revenues rose 13% to P25.5 billion, boosted by 52 new store openings (half are company-owned), menu innovations and local store marketing activities which allowed system wide sales to reach P42.6 billion. System wide same-store-sales grew 5.8% year-on-year. Total number of restaurants totaled 566 at end-2017, reaching new territories as far as Antique, Sorsogon, Masbate and San Francisco, Agusan Del Sur. Consumer touchpoints such as drivethru and online delivery have delivered double-digit growths. A strong source of incremental business is the convenient services across the country through McDelivery which made McDonald's post the fastest growth in the QSR industry. These operating results translated into 18% and 8% of the consolidated revenues and net profit of AGI and subsidiaries.

**Revenues**, as a result of the foregoing, showed 4% year-on-year growth to P138.8 billion in 2017, as the strong performances in the real estate, QSR and alcoholic beverages countered RWM's lost gaming revenues. Sale of goods (real estate, alcoholic beverages, snack products) jumped 7%. Service revenues (QSR, rentals, hotels, gaming) improved P340 million, with sales from company-operated and franchised QSR and rental income growing 13% and 18%, respectively, cushioning the impact of 25% drop in gaming revenues.

**Cost and expenses** expanded 6% to P109.9 billion in 2017. Cost of goods sold, as a function of sales, showed almost the same expansion pace of 8% due to higher costs of wine and packaging materials for alcoholic products. Same goes with other operating expenses showing an increase of 8% due to the increase in other administrative and corporate overhead expenses as well as increase in strategic marketing spend (for new products launched).

**Share in net profits of associates and joint ventures** went down 23% or P83 million, due to decrease in net profit of Megaworld's associates.

**Finance and other income** increased 10% or P271 million higher than last year from interest income and other miscellaneous gains, including the gain on sale of investment in an associate of Megaworld.

**Finance costs and other charges** appeared to dwindle 5% because of foreign currency losses reported last year by Megaworld and Travellers from the translation of their foreign-currency bonds, which mitigated the high interest expenses and loss from casualty reported this year.

**Tax expense** rose P678.2 million or a 12% increase due to higher taxable income and tax effects of deductible temporary differences for Megaworld and GADC, and the expiration of a previously recognized deferred tax asset of Travellers from 2014.

**Net profit** totaled P22.3 billion this year, 3% down year-on-year, with **net profit attributable to owners** up by 2% to P15.2 billion.

## Financial Condition

### December 31, 2018 vs 2017

**Consolidated total assets** amounted to P588.2 billion at end of 2018 from P535.6 billion at beginning of year. The Group is strongly liquid with **current assets** exceeding **current liabilities** 3.0 times. Current assets amounted to P277.7 billion while current liabilities amounted to P92.4 billion at end of the current year.

For most of the balance sheet accounts, there is a corresponding note found in the audited consolidated financial statements where details, breakdown or composition of the accounts are presented. Please refer to those notes accompanying the consolidated financial statements. In summary:

**Cash and cash equivalents** decreased 15% or P8.0 billion to end the year at P44.8 billion from P52.8 billion at the beginning of the year, primarily due to dividend payment, capital expenditures and ongoing purchase of treasury shares of a subsidiary. Cash flows from operating, financing and investing activities during the period were presented in the consolidated statements of cash flows.

**Current trade and other receivables** increased 25% or P12.0 billion mainly from real estate trade receivables, higher alcoholic product sales in the lead up to Christmas holidays, advances to contractors and suppliers and transactions with franchisees and affiliated restaurants arising from product deliveries, rentals, royalty and other service charges. **Non-current trade and other receivables**, on the other hand, decreased 25% or P4.4 billion mainly from reclassification of currently maturing receivables.

**Contract assets** which represent the reclassified portion of trade and other receivables relating to rights to payment which are conditioned upon the completion of units sold and represent excess of progress of work over the right to an amount of consideration, went up 89% or P5.2 billion for the **currently** maturing assets while **non-currently** maturing assets went up 11% or P1.1 billion.

**Inventories** grew 14% or P15.8 billion from the real estate inventories, cased stocks from new products and Scotch whisky fillings due to high demand for the products. Real estate inventories include residential units for sale, raw land for development and property development cos, reflective of new project launches of Megaworld.

**Other current assets** went up 18% or P2.5 billion mainly due to an increase in the amount of unutilized input vat, prepayments, creditable withholding taxes and deferred commissions at year-end.

**Advances to landowners and joint ventures** escalated 15% or P921 million due to additional advances made by Megaworld relating to its ongoing development projects.



Due to the adoption of a new accounting standard, **Available-for-sale financial assets** are designated as **Financial assets at fair value through other comprehensive income** amounting to P460.0 million for such financial assets are held by the Group for long-term strategic investments and are not expected to be traded in the short-term to medium-term.

**Investment in and advances to associates and other related parties** decreased 8% or P723 million primarily due to the reclassification of PCMI from being an associate into becoming a subsidiary of Megaworld this 2018 and the recognition of impairment loss from a number of associates from writing-off its investments from such associates.

**Property, plant and equipment** increased 20% or P19.5 billion primarily attributed to ongoing expansion of Travellers, Megaworld and Emperador. RWM completed the construction of Courtyard Iloilo last May 2018 and Hilton Manila in October. The Grand Wing also completed some gaming areas. There also an increase in construction in progress related to two other hotels and other gaming areas to be completed. The Grand Wing is comprised of three luxury hotels- Sheraton Manila Hotel, Hilton Manila and Hotel Okura Manila. It would also include approximately 14,000 sqm. and 3,200 sqm. of gaming and retail space respectively. Additional costs were also incurred from MEG's hotel buildings and EMP's distillery plant.

**Investment property** rose 8% or P7.4 billion as more revenue-generating malls, commercial centers and office buildings were completed by Megaworld group.

**Deferred tax assets** jumped 26% or P208 million from an increase in income tax provisions from prior months and from taxable temporary differences.

**Other non-current assets** grew 11% or P615 million due to the increase in advances made by RWM to PAGCOR in connection with the development of Site A

**Trade and other payables** went up 26% or P10.1 billion as trade payables, accrued expenses and retention payable to contractors swelled up. It also included unredeemed gaming points and unredeemed gaming chips. Accrued expenses increased due to timing of accruals at year-end.

**Contract liabilities** represent MEG's excess of collection over the progress of work under Meg, with **current** portion increasing 53% or P918 million and **non-current** portion decreasing 11% or P342 million.

**Current bonds payable** in 2017 were paid this 2018.

**Current interest-bearing loans** dipped 25% or P8.2 billion while **non-current interest-bearing loans** ballooned 32% or P34.6 billion, for a net increase of P26.4 billion which is mainly attributed to additional loans obtained by Megaworld and Travellers intended for capital expenditures and EMP for inventory purchases of Scotch fillings.

**Income tax payable** surged 75% or P720 million, mainly from higher unpaid income taxes at current year-end which is attributed to higher taxable profit.

**Other current liabilities** went up by 18% or P2.2 billion while **other non-current liabilities** increased by 17% or P2.6 billion mainly from customers' deposits which pertains to amounts received from customers for sales from residential lots and condo units not yet qualified for revenue recognition. Deferred rental income and commissions payable also contribute to such increase.

**Retirement benefit obligation** reduced 8% or P153.4 million from lower recognized liabilities on employee benefits by MEG.

**Non-current redeemable preferred shares**, dipped 8% or P144.8 million due to the redemption of preferred shares in MEG.

**Deferred tax liabilities** went up 42% or P3.3 billion due to the tax effect in MEG's taxable and deductible temporary differences.

The **changes in equity components** are presented in detail in the consolidated statements of changes in equity. The equity attributable to owners increased 5% while non-controlling interest increased 7% each, from the share in net profit and other comprehensive income. Treasury shares pertain to the acquisition cost of the shares that have been brought back from the market pursuant to the Group's ongoing buyback program. Opening retained earnings also reflected the effect of adoption of an accounting standard that was applied retrospectively through the opening balance only.

### **December 31, 2017 vs 2016**

**Consolidated total assets** amounted to P535.6 billion at end of 2017 from P461.9 billion at beginning of year. The Group is strongly liquid with **current assets** exceeding **current liabilities** 2.6times. Current assets amounted to P250.0 billion while current liabilities amounted to P96.7 billion at end of the current year.

For most of the balance sheet accounts, there is a corresponding note found in the audited consolidated financial statements where details, breakdown or composition of the accounts are presented. Please refer to those notes accompanying the consolidated financial statements. In summary:

**Cash and cash equivalents** went up 15% or P7.0 billion to end the year at P52.8 billion from P45.7 billion at the beginning of the year, primarily from loan proceeds. Cash flows from operating, financing and investing activities during the period were presented in the consolidated statements of cash flows.

**Financial assets at fair value through profit or loss** soared 29% or P3.0 billion from marketable securities purchased during the year.

**Contract assets** were the reclassified portion of trade and other receivables relating to rights to payment which are conditioned upon the completion of units sold and represent excess of progress of work over the right to an amount of consideration. Current contracts went down 7% while non-current contracts went down 17%.

**Current trade and other receivables** increased 29% or P10.9 billion mainly from real estate sales and rental transactions, advances to contractors and suppliers (mostly relating to ongoing construction works), booked insurance claims, and receivable from sale of land. **Non-current trade and other receivables** on the other hand refer to the outstanding receivable from rental income of the company from its associates and other related parties and from sale of properties other than those receivable in the span on one year or less.

**Inventories** expanded 12% or P12.4 billion from the maturing liquids of Scotch whisky and Spanish brandy and real estate for-sale inventories. Emperador group acquired inventories relating to 'Domecq' brandies and Bodegas Garvey in 2017. It also includes residential units for sale, raw land for development and property development cost.

**Other current assets** went up 18% or P2.1 billion mainly due to an increase in the amount of unutilized input vat, prepayments and refundable deposits at end-2017.

**Advances to landowners and joint ventures** escalated 23% or P1.1 billion due to additional advances made by Megaworld relating to its ongoing development projects.

**Non-current Available-for-sale financial assets** decreased 29% or P175.0 million from securities sold to get fresh funds. **Current available-for-sale financial assets** at end-2016 already matured in 2017.

**Investment in and advances to associates and other related parties** decreased 6% or P559.0 million primarily due to reduction in capitalization of a Spanish joint venture (BLC) and the transfer of such to a newly incorporated Spanish subsidiary (DBLC).

**Property, plant and equipment** increased 18% or P15.0 billion primarily attributed to Travellers, Megaworld and Emperador. Expansion works in RWM are in full swing with the Grand Wing, comprising of three hotels (Hilton Manila, Sheraton Manila and Hotel Okura Manila) and retail and gaming areas expected to be completed by the end of 2018. Megaworld completed its corporate headquarters in Uptown and Travellers completed RunWay Manila which opened to the public in April. There were also asset acquisitions (vineyards, bodegas wineries, real estate) in Spain and Mexico made during the year.

**Investment property** increased 17% or P14.2 billion as more revenue-generating malls, commercial centers and office buildings were completed by Megaworld group.

**Intangible assets** amplified 11% or P4.1 billion from trademarks acquired by Emperador from its asset acquisitions relating to 'Domecq' intellectual properties held by Pernod Ricard and those of Grupo Garvey which include brandies and sherry wines.

**Deferred tax assets** were reduced 18% or P179.4 million principally due to lapsing of the three-year validity of Travellers' MCIT in 2014.

**Trade and other payables** went up 14% or P4.7 billion from trade payables and accruals incurred by new subsidiaries of EMP in 2017.

**Contract liabilities** represent MEG's excess of collection over the progress of work with current portion going up 80% or P775 million and non-current portion rising 22% or P558 million.

**Current bonds payable** plummeted 75% or P29.8 billion from the settlement of Cayman \$500 million bonds which matured in August 2017 (P24.9 billion) and full settlement of Traveller's \$300 million notes in November 2017 (P14.9 billion). Megaworld's \$200 million bonds maturing in April 2018 (P10.0 billion) is reclassified (from non-current last year-end) to this account. **Non-current bonds payable** increased 9% or P2.1 billion from additional issuance of bonds by Megaworld for general corporate purposes. Megaworld issued P12.0 billion seven-year bonds which carry 5.3535% p.a. coupon on March 28, 2017.

**Current interest-bearing loans** ballooned 55% or P11.6 billion while **non-current interest-bearing loans** surged 95% or P52.8 billion, for a total increase of P64.4 billion which is mainly attributed to additional loans obtained by Travellers (P24.4 billion) and Megaworld (P1.7 billion) intended for capital expenditures; by AGCayman (P34.8 billion) to refinance its bonds and for investment purposes; and by Emperador offshore (P8.8 billion) for the purchase of stocks and capital expenditures in UK and Spain.

**Income tax payable** were reduced 14% or P163 million, mainly due to application of creditable withholding taxes, which come significantly from sale of land plus collections from franchisees which resulted in lower accrued income tax of GADC.

**Other current liabilities** went up by 19% or P1.9 billion while **other non-current liabilities** increased by 8% or P1.1 billion mainly from customers' deposits which pertains to amounts received from customers for sales from residential lots and condo units not yet qualified for revenue recognition. Advance rent and security deposits from new tenants also contribute to such increase.

**Non-current advances from related parties** swelled 34% or P588.7 million due to advances received by Megaworld during the year.

**Retirement benefit obligation** reduced 25% or P660.8 million primarily driven by the increase in the fair value of Emperador group's plan assets.

**Redeemable preferred shares**, current and non-current portions combined, rose 5% or P94.9 million relating to the accretion of GADC's redeemable preferred shares.

**Deferred tax liabilities** increased 32% or P1.9 billion due to the tax effect in MEG's taxable and deductible temporary difference.

The **changes in equity components** are presented in detail in the consolidated statements of changes in equity. The equity attributable to owners and to non-controlling interest increased 10% each, from the share in net profit and other comprehensive income. Treasury shares pertain to the acquisition cost of the shares that have been brought back from the market pursuant to the Group's ongoing buyback program.

*b.2. Liquidity and Capital Resources*

The consolidated statements of financial position showed strong liquidity with current assets exceeding current liabilities 3.0times and 2.6times at end of 2018 and 2017, respectively. Total-liabilities-to-equity ratios were at 1.0:1 at the end of both 2018 and 2017, while interest-bearing-debt-to-total-equity ratios were correspondingly at 68% and 66%. Assets exceeded liabilities 2times and equity 2times as well.

In general, working capital was sourced internally from operations and bank loans during the year. In the ensuing year, the Group expects to meet its working capital and investment requirements from operating cash flows and debt. It may also from time to time seek other sources of funding, if necessary, depending on its financing needs and market conditions.

<i>Amounts in Million Pesos</i>	<u>31-Dec-18</u>	<u>31-Dec-17</u>	<u>31-Dec-16</u>
Cash and equivalents	44,779	52,784	45,734
FVTPL/AFS financial assets	<u>14,077</u>	<u>13,948</u>	<u>11,072</u>
<b>Total Available</b>	<b>58,856</b>	<b>66,733</b>	<b>56,806</b>
Interest-bearing debt –current	24,530	42,677	60,831
Interest-bearing debt- noncurrent	167,974	132,662	77,831
Equity-linked securities- non- current*	<u>5,259</u>	<u>5,227</u>	<u>5,263</u>
<b>Total Debt</b>	<b>197,763</b>	<b>180,566</b>	<b>143,924</b>
Net cash (debt)	-138,906	-113,833	-87,118
Available Cash and financial assets to interest-bearing debt	30%	37%	39%
Interest-bearing debt to total equity	68%	66%	58%

\*Equity-linked debt securities are presented under Other non-current liabilities.

*b.3. Prospects for the future*

AGI has a proven track record of creating value over time and is confident in its ability to deliver sustainable profitable growth and value for its stakeholders. AGI looks forward to maintain momentum of all the business segments' strong contribution to the Group's success backed by aggressive expansion strategies implemented.

Emperador group is best positioned to capitalize on premiumization opportunities, with its bigger product portfolio of brandy and Scotch whisky and greater global reach. New products are initiated to capture the discriminating taste of its consumers who look for variety and innovations.

Megaworld, being the leader of the country's integrated urban townships, has a strong portfolio nationwide that are backed by adequate land banking and carefully-thought masterplans. Its aggressive thrust to grow its investment properties has resulted in increased recurring income stream. It continues to innovate its real estate development and targets to add more developments under this category. It intends to acquire more land and other investment properties.

Travellers sees a lot of potential for further growth, as it continues to expand its non-gaming facilities and offerings. It is looking forward to the completion of its Grand Wing in RWM which should boost its hotel and overall gaming capacity.

With Megaworld and Travellers combined, AGI now is the country's biggest owner and operator of hotels with over 5,000 room keys which is expected to increase by 1,000 in 2019 as a step toward the Group's objective of achieving total hotel room keys of 12,000 in three to five years.

GADC will continue its brand promise of making delicious feel-good moments easy for every customer and remains steadfast in its expansion inspite of the challenges ahead. It aims to sustain its business momentum as it targets more new store openings with continuous focus on operational excellence, leveraging on its taste heritage and technology, espousing the role of family and community in delivering business while exemplifying good corporate citizenship. To bring McDonald's world-class experience to the country, GADC aims to add 60 NXT GEN stores in 2019 which comes with self-ordering kiosks, modernized menu boards and cashless payment modes.

In 2019, all the business segments are expected to sustain growth trajectory in line with targets and will continue to bolster their presence in their respective fields.

#### *b.4. Others*

There are no other known material events subsequent to the end of the year that would have a material impact on the current year.

There are no other known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way. The Group does not have nor anticipate having any cash flow or liquidity problems within the next twelve months. AGI and its subsidiaries are not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no other known events that will trigger direct or contingent financial obligation that is currently considered material to the Group, including any default or acceleration of an obligation.

There are no other material off-balance sheet transactions, arrangements, obligations, and other relationships with unconsolidated entities or other persons created during the reporting period.

There are no other known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. There are also no known events that will cause material change in the relationship between costs and revenues.

There are no other significant elements of income or loss that did not arise from continuing operations.

There were no other material issuances, repurchases or repayments of debt and equity securities.

The business has no seasonal aspects that had a material effect on the financial condition and results of operations of the Group.



## 7. FINANCIAL STATEMENTS

The audited consolidated financial statements, together with Statement of Management's Responsibility and Auditors' Report, and supplementary schedules are attached and filed herewith.

The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS), on the historical cost basis except for the measurement of certain financial assets and liabilities. The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. The estimation and judgments are based upon management's evaluation of relevant facts and circumstances of the financial statements. Actual results may ultimately vary from those estimates.

The Group presented a third consolidated statement of financial position as of January 1, 2017 effecting the retrospective restatements and reclassifications made in the 2017 and 2016 consolidated financial statements, as a result of the Group's retrospective adoption of new standards and interpretations as discussed in Note 2.1(c) to the consolidated financial statements, that have material impact on the consolidated statement of financial position at the beginning of the preceding period, i.e. January 1, 2017. The related notes to the third consolidated statement of financial position are not required to be disclosed.

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

## 8. INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATERS

### **a. External Audit Fees And Services**

#### ***a.1. Audit and audit-related services***

Punongbayan&Araullo ("P&A") has been appointed as the principal accountant since 2003. In compliance with SEC Rule 68 paragraph 3 (b) (iv) (Rotation of External Auditors), and as adopted by the Company, external auditors or engagement partners are rotated or changed every five years. The lead engagement partner for 2018 and this year is Mr. Romualdo V. Murcia III.

The fees, excluding out-of-pocket expenses and vat, for each of the last two fiscal years totaled P2.48 million and P2.36 million for the audit of 2018 and 2017 annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements.

#### ***a.2. Tax fees and all other fees***

There were no separate tax fees billed and no other products and services provided by P&A to AGI for the last two fiscal years.

#### ***a.3. Audit Committee's approval***

All the above services have been approved by the Audit Committee through the internal policies and procedures of approval. The Committee is composed of Alejo L. Villanueva as Chairman and Sergio R. Ortiz-Luis, Jr. and Andrew L. Tan as members.

### **b. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure**

P&A, as principal auditors, issued an unqualified opinion on the consolidated financial statements. As such, there had been no disagreements with them on any accounting principles or practices, financial disclosures, and auditing scope or procedure.

## PART III - CONTROL AND COMPENSATION INFORMATION

### 9. DIRECTORS AND EXECUTIVE OFFICERS

#### a. Directors And Executive Officers

Directors are elected annually by the stockholders to serve until the election and qualification of their successors. All of the directors, including two independent directors, Messrs. Sergio Ortiz-Luis, Jr. and Alejo Villanueva, Jr., were elected in the last annual stockholders' meeting on September 18, 2018.

The table below sets forth each member of the Company's Board as of February 28, 2019:

Name	Age	Citizenship	Position
Andrew L. Tan	69	Filipino	Chairman
Kevin Andrew L. Tan	39	Filipino	Vice-Chairman
Kingson U. Sian	57	Filipino	Director
Katherine L. Tan	67	Filipino	Director
Winston S. Co	61	Filipino	Director
Alejo L. Villanueva, Jr.	77	Filipino	Independent Director
Sergio R. Ortiz-Luis, Jr.	75	Filipino	Independent Director

The table below sets forth the Company's executive officers as of February 28, 2019:

Name	Age	Citizenship	Position
Kevin Andrew L. Tan	39	Filipino	Chief Executive Officer
Katherine L. Tan	67	Filipino	Treasurer
Kingson U. Sian	57	Filipino	President
Dina D.R. Inting	59	Filipino	Chief Financial Officer
Dominic V. Isberto	44	Filipino	Corporate Secretary
Rolando D. Siatela	58	Filipino	Assistant Corporate Secretary

#### **Andrew L. Tan** **Chairman of the Board**

Mr. Tan has served as Chairman of the Board since September 2006. He has also served as the Chief Executive Officer from September 2006 to June 2018 and as Vice-Chairman of the Board from August 2003 to September 2006. He holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/ Years
Emperador Inc.	Chairman	Aug 2013	May 2018	5
Megaworld Corporation	Chairman & President	Aug 1989	June 2018	29
Travellers International Hotel Group, Inc.	Director	July 2008	June 2016	10
Global-Estate Resorts, Inc. (subsidiary of Megaworld)	Chairman	January 2011	June 2018	7
Empire East Land Holdings, Inc. (subsidiary of Megaworld)	Chairman	July 1994	June 2018	24

He pioneered the live-work-play-learn model in the real estate development through the Megaworld Corporation's integrated township communities, fueling the growth of the business process outsourcing ("BPO") industry, food and beverage, and quick service restaurants industries. Mr. Tan is concurrently the Chairman of the Board and President of Megaworld Land, Inc., Richmonde Hotel Group International Limited, The Bar Beverage, Inc., and Yorkshire Holdings, Inc. He is also Chairman of Emperador Distillers, Inc., Alliance Global Brands, Inc., Suntrust Properties, Inc., Adams Properties, Inc., Consolidated Distillers of the Far East, Inc., Eastwood Cyber One Corporation, Megaworld Central Properties, Inc., Megaworld Foundation, Inc., Townsquare Development Inc., and Adams Properties, Inc. He also serves as Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation. He is the Chairman and Treasurer of The Andresons Group, Inc. and sits in the boards of Infracorp Development, Inc., Twin Lakes Corporation, Forbes Town Properties & Holdings, Inc., Gilmore Property Marketing Associates, Inc., Megaworld Central Properties, Inc., and Raffles & Company, Inc. He is also the Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation and a Director and Treasurer of Andresons Global, Inc. Mr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

**Kevin Andrew L. Tan**  
**CEO and Vice-Chairman**

Mr. Tan has been elected as Chief Executive Officer since June 2018 and Vice-Chairman since September 2018. He has served as Director since April 20, 2012. He holds position in the following other listed company:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/
Empire East Land Holdings, Inc.	Director	June 2015	June 2018	3
Global-Estate Resorts, Inc.	Director	June 2014	June 2018	4
Emperador Inc.	Director	Oct 2017	May 2018	1

He is concurrently the Chairman of Infracorp Development, Inc. and a Director of Emperador Distillers, Inc., Alliance Global Brands, Inc., Anglo Watsons Glass, Inc., Yorkshire Holdings, Inc., The Bar Beverage, Inc., Emperador Brandy, Inc., and New Town Land Partners, Inc. He has over 11 years of experience in retail leasing, marketing and operations. He is currently the Executive Vice President and Chief Strategy Officer of Megaworld Corporation where he is in charge of developing corporate strategies, expansion and new opportunities, as well as investor and stakeholder relations. He formerly headed the Commercial Division of Megaworld Corporation, which markets and operates the Megaworld Lifestyle Malls, including Eastwood Mall and The Clubhouse at Corinthian Hills in Quezon City, Venice Piazza at McKinley Hill and Burgos Circle at Forbestown Center, both in Fort Bonifacio, California Garden Square in Mandaluyong City, Newport Mall at Resorts World Manila in Pasay City, Lucky Chinatown Mall in Binondo, Manila, Uptown Mall in Uptown Bonifacio and Southwoods Mall in Laguna. Mr. Tan holds a Bachelor of Science Business Administration degree, major in Management, from the University of Asia and the Pacific.

**Kingson U. Sian**  
**Director and President**

Mr. Sian has served as Director and President since February 20, 2007. He holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Megaworld Corporation	Director/Executive Director	Apr 2007	June 2018	11
Travellers International Hotel Group, Inc.	Director and President	June 2008	June 2016	10
	Chief Executive Officer	Oct 2014	June 2016	4

He is the Chairman and President of Asia Finest Hotels & Resorts, Inc., Megaworld Resort Estates, Inc., Prestige Hotels & Resorts, Inc., and Manila Bayshore Property Holdings, Inc. He is Director/President of Adams Properties, Inc., Eastwood Cyber One Corporation, Eastwood Locator's Assistance Center, Inc., and Forbestown Properties Holdings, Inc. He is also a Director of Asia E-Commerce, Inc., Citywalk Building Administration, Inc., Eastwood Corporate Plaza Building Administration, Inc., Eastwood City Estates Association, Inc., Forbes Town Commercial Center Administration, Inc., ICITE Building Administration, Inc., Paseo Center Building Administration, Inc., Techno Plaza One Building Administration, Inc., and World Café, Inc. He is the Senior Vice President & Chief Executive Officer of Megaworld Land, Inc. Mr. Sian graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Masteral Degree in Business Administration for Finance and Business Policy from the University of Chicago.

**Katherine L. Tan**  
**Director and Treasurer**

Ms. Tan has served as Director and Treasurer since February 2007. She holds positions in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/Years
Emperador Inc.	Director and Treasurer	Aug 2013	May 2018	5
Megaworld Corporation	Director	Aug 1989	June 2018	29
	Treasurer	Aug 1989	June 1995	6

She is the Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc. She is also Director/President of Consolidated Distillers of the Far East, Inc., Raffles and Company, Inc., and The Andresons Group, Inc. She is the Director/Treasurer of Alliance Global Brands, Inc., Emperador Brandy, Inc., Emperador Distillers, Inc., and Yorkshire Holdings, Inc. She is also Director of Emperador International Limited, Kenrich Corporation, McKesterPik-Nik International Limited, Megaworld Cayman Islands, Inc., Venezia Universal Limited, and The Bar Beverage, Inc. She is the Treasurer of Newtown Land Partners, Inc. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

**Winston S. Co**  
**Director**

Mr. Co has served as Director of Alliance Global Group, Inc. since 1998 where he previously was Vice Chairman of the Board from November 1999 to August 2003 and Chairman from June 1998 to October 1999. He holds position in the following other listed company:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/ Years
Emperador Inc.	President and CEO	Aug 2013	May 2018	5

He is the Chairman and President of New Town Land Partners, Inc., Chairman of Anglo Watsons Glass, Inc. and Director/President of Emperador Distillers, Inc. He sits in the boards of Alliance Global Brands, Inc., Forbes Town Properties & Holdings, Inc., McKester Pik-Nik International Limited, Raffles & Company, Incorporated, and The Bar Beverage, Inc. He is also Senior Vice President of The Andresons Group, Inc. Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce.

**Sergio R. Ortiz-Luis, Jr.**  
**Independent Director**

Mr. Ortiz-Luis has served as Independent Director of the Board since September 2007. He has served as Vice-Chairman of the Board from September 2007 to September 2018. He is the President of the Philippine Exporters Confederation, Inc. (PHILEXPORT) and Honorary Chairman and Treasurer of the Philippine Chamber of Commerce & Industry. He is also Honorary Chairman of Integrated Concepts & Solutions, Inc. and Vice Chairman of Export Development Council. He is a Director of Waterfront Philippines, Inc., Philippine Estate Corporation, B.A. Securities, Manila Exposition Complex, Inc., and Jolliville Holdings. He is also an Independent Director of Forum Pacific, Inc. Corporation and Calapan Ventures, Inc.

**Alejo L. Villanueva, Jr.**  
**Independent Director**

Mr. Villanueva has served as Independent Director since August 2001. He holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Emperador Inc.	Independent Director	Aug 2013	May 2018	5
Empire East Land Holdings, Inc.	Independent Director	June 2007	June 2018	11
Suntrust Home Developers, Inc.	Independent Director	Oct 2012	Oct 2018	6

He is the Chairman of Ruru Courier Systems, Inc. and Vice Chairman of Public Relations Counsellors Foundation of the Philippines, Inc. He is Director of First Capital Condominium Corporation, a non-stock non-profit corporation. He is a professional consultant who has more than twenty years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse (BOT program, a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, summa cum laude. He has a master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

**Dina D.R. Inting**  
**Chief Financial Officer**

Ms. Inting has served as Chief Financial Officer since January 1995 and at present its Compliance Officer and Corporate Information Officer. She holds position in the following other listed company:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Emperador Inc.	Chief Financial Officer, Compliance Officer and Corporate Information Officer	Aug 2013	May 2018	5



She is currently director of Progreen Agricornp, Inc. She gained an extensive experience in the fields of audit, comptrollership, treasury, finance, branch operations and personnel management from her previous employments. She is a Cum Laude graduate of Bachelor of Science in Commerce major in Accounting, Honors Program, at the Philippine College of Commerce (Polytechnic University of the Philippines), holds a certificate in Organizational Development from the Ateneo de Manila University, and is a Certified Public Accountant.

**Dominic V. Isberto**  
**Corporate Secretary**

Mr. Isberto has served as the Corporate Secretary since September 14, 2007. He holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Global-Estate Resorts, Inc.	Corporate Secretary and Assistant Corporate Information Officer	Jan 2011	June 2018	7
Emperador Inc.	Corporate Secretary	Aug 2013	May 2018	5

He is also the Corporate Secretary of Twin Lakes Corporation, Eastwood City Estates Association, Inc., Suntrust Properties, Inc. and Fil-Estate Properties, Inc. He also serves as Assistant Corporate Secretary of Adams Properties, Inc. Mr. Isberto has experience in litigation and banking and corporate law. He has a degree in Management Engineering from the Ateneo de Manila University and obtained his Bachelor of Laws degree from the University of the Philippines.

**Rolando D. Siatela**  
**Assistant Corporate Secretary**

Mr. Siatela has served as Assistant Corporate Secretary since August 30, 2002. He holds position on the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Suntrust Home Developers, Inc.	Corporate Secretary and Corporate Information Officer	May 2006	Oct 2018	12
Megaworld Corporation	Assistant Corporate Secretary	Oct 2006	June 2018	12
Global-Estate Resorts, Inc.	Assistant Corporate Secretary	Jan 2011	June 2018	7
Emperador Inc.	Assistant Corporate Secretary	Aug 2013	May 2018	5

He is a Director of Asia Finest Cuisine, Inc. He is the Corporate Secretary of ERA Real Estate Exchange, Inc., ERA Real Estate, Inc., and Oceanic Realty Group International, Inc. He concurrently serves as Asst. Corporate Secretary of Suntrust Properties, Inc. He was employed as Administrative and Personnel Officer with Batarasa Consolidated, Inc. and served as Assistant Corporate Secretary and Chief Administrative Officer of The Andresons Group, Inc.

***b. Significant Employees***

The Company does not have employees who are not executive officers but expected to make significant contribution to the business.

### ***c. Family Relationships***

1. Chairman Andrew L. Tan is married to Treasurer/Director Katherine L. Tan;
2. Kevin Andrew L. Tan, their son, is the CEO and Vice Chairman of the Company. He is also the EVP and Chief Strategy Officer of MEG;
3. Kendrick Andrew L. Tan, another son, is the Corporate Secretary and Executive Director of EDI, and Director/Executive Director of EMP;
4. Both siblings are currently serving as directors of AWG, Newtown Land Partners, Inc., and Yorkshire Holdings, Inc.

### ***d. Involvement In Legal Proceedings***

The Company has no knowledge of any of the following events that occurred during the past five (5) years up the date of this report that are material to an evaluation of the ability or integrity of any director or executive officer or control person of the Company:

1. Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
3. Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
4. Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

## **10. EXECUTIVE COMPENSATION**

### ***a. Executive Compensation***

#### *Name and Principal Position*

Andrew L. Tan, Chairman  
Kevin Andrew L. Tan, Vice Chairman, CEO  
Kingson U. Sian, President (COO)  
Katherine L. Tan, Treasurer  
Dina D. Inting, CFO  
Dominic V. Isberto, Corporate Secretary  
Rolando D. Siatela, Asst. Corporate Secretary

The officers receive fixed salary on a monthly basis from the respective subsidiaries or businesses they principally handle. Hence, for years 2018, 2017, and 2016, no compensation was received from AGI, the holding company, and neither will there be for 2019, except for an allowance for Mr. Kingson Sian which started in February 2007.

### ***b. Compensation of Directors***

In a board resolution passed in November 2007, members of the Company's Board of Directors began to receive per diem allowance for attendance in board meetings.

### **c. Employment Contracts, Termination of Employment And Change-In-Control Arrangements**

There are no employment contract between the Company and a named executive officer; and no compensatory plan or arrangement, including payments to be received from the Company, with respect to a named executive officer, that results or will result from the resignation, retirement or any other termination of such executive's employment with the Company and its subsidiaries or from a change-in-control of the Company or a change in the named executive officer's responsibilities following a change-in-control and amount involved, including all periodic payments or installments, that exceeds P2.5 million.

### **d. Warrants and Options**

The Company has an Executive Stock Option Plan (the "Plan") approved by the Board of Directors of the Company and by stockholders (holding at least 2/3 of the outstanding capital stock) on July 27, 2011 and September 20, 2011, respectively. The purpose of the Plan is to enable the key Company executives and senior officers who are largely responsible for its further growth and development to obtain an ownership interest in the Company, thereby encouraging long-term commitment to the Company. The Plan is being administered by the Compensation and Remuneration Committee (the "Committee") of the Board.

Stock options may be granted within ten (10) years from the adoption of the Plan and may be exercised within seven (7) years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for nine (9) months immediately preceding the date of grant. The options shall vest within three (3) years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three (3) year period. The Company shall receive cash for the stock options.

On December 19, 2011, 46.5 million options were granted to certain key executives and senior officers, including the CEO and President, at an exercise price of P9.175 with a market price of P10.28 on the date of grant. On March 14, 2013, additional 59.1 million options were granted to certain key executives at an exercise price of P12.9997 with a market price of P21.65 at the date of grant. As of December 31, 2017, a total of 105.6 million options have vested but not yet exercised. An Option Holder may exercise in whole or in part his vested Option provided, that, an Option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said Option's Life Cycle. As of this time, the Company cannot determine if options can be exercised with less than forty percent (40%) of the total price of the shares so purchased. The Company does not provide or arrange for loans to enable qualified participants to exercise their options.

## 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(1) **Security Ownership of Record and Beneficial Owners owning more than 5% of the Company's outstanding common stock as of February 28, 2019:**

<i>Title of Class</i>	<i>Name and Address of Record Owner &amp; Relationship w/ Issuer</i>	<i>Name of Beneficial Owner &amp; Relationship w/ Record Owner</i>	<i>Citizenship</i>	<i>No. of Shares</i>	<i>Percent Owned</i>
Common	THE ANDRESONS GROUP, INC. 7/F 1880 Eastwood Avenue, Eastwood City Bagumbayan, Quezon City, <sup>1</sup>	THE ANDRESONS GROUP, INC. (TAGI)	Filipino	4,081,664,094	40.75
Common	PCD NOMINEE CORPORATION (NON-FILIPINO) 37/F Tower 1, The Enterprise Center, 6766 Ayala Avenue, Makati City <sup>2</sup>	THE HONGKONG AND SHANGHAI CORP. LTD. (Non-Filipino) HSBC <sup>2</sup> Securities Services 12 <sup>th</sup> Floor, The Enterprise Center, Tower I, 6766 Ayala Avenue corner Paseo de Roxas, Makati City.	Non-Filipino	1,691,561,129	16.651
Common	YORKSHIRE HOLDINGS, INC. 18 <sup>th</sup> Floor Alliance Global Tower 26 <sup>th</sup> Street cor. 11 <sup>th</sup> Avenue, Uptown Bonifacio, Taguig City <sup>3</sup>	YORKSHIRE HOLDINGS, INC. (YHI)	Filipino	1,583,459,842	15.587
Common	PCD NOMINEE CORPORATION (NON-FILIPINO) G/F Makati Stock Exchange Building 6767 Ayala Avenue, Makati City	THE CAPITAL GROUP COMPANIES, INC. (CGC) <sup>4</sup> 333 South Hope Street, 55 <sup>th</sup> Floor Los Angeles CA 90071-1406 USA	Non-Filipino	1,096,297,040	10.791
Common	PCD NOMINEE CORPORATION (NON-FILIPINO) G/F Makati Stock Exchange Building 6767 Ayala Avenue, Makati City	DEUTSCHE BANK MANILA-CLIENTS A/C <sup>2</sup> 26/F Ayala Tower One Ayala Triangle, Makati City	Non-Filipino	858,794,168	8.454

(2) **Security Ownership of Management as of February 28, 2019:**

<i>Title</i>	<i>Name of Beneficial Owner</i>	<i>Citizenship</i>	<i>Amount</i>	<i>Percent</i>
Common	Andrew L. Tan ( <i>Chairman of the Board</i> )	Filipino	63,684,078	0.63%
Common	Sergio R. Ortiz-Luis, Jr. ( <i>Director</i> )	Filipino	1	0.00%
Common	Winston S. Co ( <i>Director</i> )	Filipino	2,728	0.00%
Common	Kingson U. Sian ( <i>Director</i> )	Filipino	5,001,100	0.04%
Common	Katherine L. Tan ( <i>Director</i> )	Filipino	1	0.00%
Common	Alejo L. Villanueva, Jr ( <i>Director</i> ).	Filipino	1	0.00%
Common	Kevin Andrew L. Tan ( <i>Director</i> )	Filipino	1	0.00%
Common	Dina D. Inting( <i>CFO</i> )	Filipino	2,758	0.00%
Directors and Executive Officers as a Group			73,693,668	0.72%

<sup>1</sup>Mr. Andrew L. Tan is the Chairman of the Board of TAGI, is authorized to appoint proxy to vote for the shares.

<sup>2</sup>HSBC and Deutsche are participants of the PCD Nominee Corporation. The beneficial owners of the shares are not known to the Company.

<sup>3</sup>Mr. Andrew L. Tan, Chairman of YHI is authorized to appoint proxy to vote for the shares which includes direct and indirect beneficial ownership through Altavision Resources, Inc., Asiagroup Holdings, Inc., Globaland Holdings, Inc. Grand Belair Holdings, Inc., and Le Bristol Holdings, Inc.

<sup>4</sup>CGC is the parent company of Capital Research Management Company (CRMC), a US based investment company. CRMC in turn is the parent company of Capital Group International, Inc., which is in turn is the parent company of five investment management companies: Capital Guardian Trust Company, Capital International, Inc., Capital International Limited, Capital International Sarl and Capital International K.K. Neither CGC nor any of its affiliates own shares for its account. Rather, the shares reported are owned by accounts under the discretionary investment management of one or more of the investment management companies described above.

## 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Except for the material related party transactions described in the notes to the consolidated financial statements of the Company for the years 2018, 2017, and 2016, *(please see as filed with this report)*, there has been no material transaction during the last two years, nor is there any material transaction currently proposed, to which the Company was or is to be a party, in which any director or executive officer, or any nominee for election as director, or any stockholder holding more than ten percent (10%) of the Company's voting shares, and any member of the immediate family (including spouse, parents, children, siblings, and in-laws) of any such director or nominee for election as director, executive officer, or stockholder holding more than ten percent (10%) of the Company's voting shares had or is to have a direct or indirect material interest.



## PART IV - EXHIBITS AND SCHEDULES

### 13. EXHIBITS AND REPORTS ON SEC FORM 17-C

**(b) Reports on SEC Form 17-C Filed During The Last Six Months Of The Report Period  
(June 1 to December 31, 2018)**

Date	Disclosures
01 June 2018	Share buy-back transaction
04 June 2018	Appointment of Kevin Andrew L. Tan as new CEO
04 June 2018	Share buy-back transaction
05 June 2018	Share buy-back transaction
06 June 2018	Share buy-back transaction
07 June 2018	Share buy-back transaction
08 June 2018	Share buy-back transaction
11 June 2018	Share buy-back transaction
13 June 2018	Share buy-back transaction
14 June 2018	Share buy-back transaction
18 June 2018	Share buy-back transaction
19 June 2018	Share buy-back transaction
20 June 2018	Share buy-back transaction
21 June 2018	Share buy-back transaction
22 June 2018	Share buy-back transaction
26 June 2018	Share buy-back transaction
27 June 2018	Share buy-back transaction
28 June 2018	Share buy-back transaction
29 June 2018	Share buy-back transaction
03 July 2018	Share buy-back transaction
04 July 2018	Share buy-back transaction
05 July 2018	Share buy-back transaction
06 July 2018	Share buy-back transaction
09 July 2018	Share buy-back transaction
10 July 2018	Share buy-back transaction
11 July 2018	Share buy-back transaction
12 July 2018	Share buy-back transaction
13 July 2018	Share buy-back transaction
16 July 2018	Share buy-back transaction
17 July 2018	Share buy-back transaction
18 July 2018	Share buy-back transaction
19 July 2018	Share buy-back transaction
20 July 2018	Share buy-back transaction
23 July 2018	Share buy-back transaction
24 July 2018	Notice of Analysts' Briefing on 1H 2018 Results
27 July 2018	Notice of and Agenda for 2018 Annual Stockholders' Meeting
10 August 2018	Press Release: AGI 1H net income soared 17% to P7.9B
10 September 2018	Share buy-back transaction
11 September 2018	Share buy-back transaction
12 September 2018	Share buy-back transaction
13 September 2018	Press Release: NAIA Consortium granted Original Proponent Status
13 September 2018	Share buy-back transaction
14 September 2018	Share buy-back transaction
17 September 2018	Share buy-back transaction
18 September 2018	Results of 2018 Annual Stockholders' Meeting
18 September 2018	Results of 2018 Organizational Board Meeting

18 September 2018	Press release: AGI allocates P240B for capital spending up to 2020
18 September 2018	Share buy-back transaction
19 September 2018	Share buy-back transaction
20 September 2018	Share buy-back transaction
05 October 2018	Share buy-back transaction
08 October 2018	Share buy-back transaction
10 October 2018	Share buy-back transaction
11 October 2018	Share buy-back transaction
12 October 2018	Share buy-back transaction
15 October 2018	Share buy-back transaction
16 October 2018	Share buy-back transaction
17 October 2018	Share buy-back transaction
22 October 2018	Notice of Analysts' Briefing on 9M 2018 Results
24 October 2018	Share buy-back transaction
25 October 2018	Share buy-back transaction
30 October 2018	Share buy-back transaction
31 October 2018	Share buy-back transaction
07 November 2018	Share buy-back transaction
09 November 2018	Share buy-back transaction
12 November 2018	Share buy-back transaction
13 November 2018	Share buy-back transaction
14 November 2018	Press Release: AGI's 9-mo profit up 23% to P18.6B
14 November 2018	Share buy-back transaction
15 November 2018	Share buy-back transaction
26 November 2018	Declaration of cash dividends

### SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized.

**Alliance Global Group, Inc.**  
*Issuer*

By:



**KEVIN ANDREW L. TAN**  
*Chief Executive Officer*  
(Principal Executive Officer)



**KINGSON U. SIAN**  
*President and COO*  
(Principal Operating Officer)



**DINA D.R. INTING**  
*Chief Financial Officer*  
(Principal Financial Officer and  
as Principal Accounting Officer  
and Comptroller)



**DOMINIC V. ISBERTO**  
*Corporate Secretary*

APR 25 2019

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_, 2019 affiants exhibiting to me their Passports/SSS No., as follows:

NAMES	PASSPORT/DL/SSS NO.	DATE OF ISSUE	PLACE OF ISSUE
Kevin Andrew L. Tan	P8166916A	Aug. 1, 2018 to July 31, 2028	Manila
Kingson U. Sian	N11-79-019621	Valid until Aug. 27, 2019	
Dominic V. Isberto	SSS 33-1952824-1		
Dina D.R. Inting	SSS 03-5204775-3		

Notary Public

Doc No. 132  
Page No. 28  
Book No. XXIV  
Series of 2019.

**MA. ESMERALDA R. CUNANAN**  
Notary Public  
Until December 31, 2019  
Appt. No. M-41 (2018-2019) Attorney's Roll No. 34562  
MCIE Compliance No. V1-0008196/4-23-2018  
PTR No. 7338753/1-3-2019/Makati City  
RP Lifetime Member Roll No. 05413  
Ground Level, Dela Rosa Carpark I  
Dela Rosa St. Legaspi Village,  
Makati City

**Alliance Global Group, Inc.**  
 7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark  
 188 E. Rodriguez Jr. Avenue, Bagumbayan, 1110 Quezon City  
 Tel. Nos. 7092038-41 Fax Nos. 7091966

**STATEMENT OF MANAGEMENT’S RESPONSIBILITY  
 FOR CONSOLIDATED FINANCIAL STATEMENTS**

The management of *Alliance Global Group, Inc. and Subsidiaries* (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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



**ANDREW L. TAN**  
 Chairman of the Board



**KEVIN ANDREW L. TAN**  
 Chief Executive Officer



**DINA D.R. INTING**  
 Chief Financial Officer

**SUBSCRIBED AND SWORN** to before me this **APR 25 2019**, affiants exhibiting to me their Passport/ SSS No., as follows:

Names	PassportNo./ SSS No.	Date	Place of Issue
Andrew L. Tan	EC1087269	May 14, 2014 to 2019	Manila
Kevin Andrew L. Tan	P8166916A	Aug. 1, 2018 to July 31, 2028	Manila
Dina D.R. Inting	SSS 03-5204775-3		

Doc. No. 131  
 Page No. 28  
 Book No. XXIV  
 Series of 2019

**MA. ESMERALDA R. CUNANAN**  
 Notary Public  
 Until December 31, 2019  
 Appt. No. M-41 (2018-2019) Attorney's Roll No. 34562  
 MCE Compliance No. V1-0008196/4-38-2018  
 PTR No. 7343752/1-3-2019/Makati City  
 IBP Lifetime Member Roll No. 05413  
 Ground Level, Dela Rosa Carpark /  
 Dela Rosa St. Legaspi Village,  
 Makati City





**P&A**  
**Grant Thornton**

An instinct for growth™

## Report of Independent Auditors

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**Punongbayan & Araullo**

20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288

### **The Board of Directors and the Stockholders**

#### **Alliance Global Group, Inc. and Subsidiaries**

7<sup>th</sup> Floor, 1880 Eastwood Avenue  
Eastwood City CyberPark  
188 E. Rodriguez, Jr. Avenue  
Bagumbayan, Quezon City

### **Opinion**

We have audited the consolidated financial statements of Alliance Global Group, Inc. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

### **Basis for Opinion**

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

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**Certified Public Accountants**

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002-FR-5

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## **Key Audit Matters**

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

### **(a) Consolidation Process**

#### *Description of the Matter*

The Group's consolidated financial statements comprise the financial statements of Alliance Global Group, Inc. and its subsidiaries, as enumerated in Note 1 to the consolidated financial statements, after the elimination of material intercompany transactions. The Group's consolidation process is significant to our audit because of the complexity of the process. It involves several layers of consolidation, identification and elimination of voluminous intercompany transactions to properly reflect realization of profits and measurement of controlling and non-controlling interests.

The Group's policy on consolidation process is more fully described in Note 2 to the consolidated financial statements.

#### *How the Matter was Addressed in the Audit*

Among others, our audit procedures to address the risk associated with the Group's consolidation process are as follows:

- Obtaining an understanding of the Group structure and its consolidation policy and process, including the procedures for identifying intercompany transactions and reconciling intercompany balances;
- Testing the mathematical accuracy of the consolidation done by management and verifying financial information used in the consolidation based on the audited financial statements of the components of the Group and evaluating the consistency of the accounting policies applied by the entities within the Group;
- Testing the accuracy and appropriateness of intercompany elimination entries, the translation of the financial statements of foreign subsidiaries of the Group, and other significant consolidation adjustments;
- Performing analytical procedures at the consolidated level; and,
- Evaluating the sufficiency and adequacy of disclosures in the Group's consolidated financial statements in accordance with PFRS.



**(b) Adoption of PFRS 15, Revenue from Contracts with Customers, on Real Estate Sales**

*Description of the Matter*

The Group adopted PFRS 15, using the full retrospective approach to all contracts not yet completed as of January 1, 2016. The adoption of PFRS 15 is significant to our audit due to the complexity of the application of the new standard and it materially affects the Group's recognition of revenue from real estate sales which accounts for 24% of total revenues of the Group.

In addition, the adoption requires application of significant judgments and estimates which affect the amounts of transactions and balances reported in the consolidated financial statements both in the current period and in the comparative prior periods presented. Areas affected by the adoption which require significant judgments and estimates include determining when a contract will qualify for revenue recognition and measuring the progress of the development of real estate projects which defines the amount of revenue to be recognized. These areas were significant to our audit as an error in application of judgments and estimates could cause a material misstatement in the consolidated financial statements.

The Group's policy for revenue recognition and the effect of the adoption of PFRS 15 to the comparative prior periods presented are more fully described in Note 2 to the consolidated financial statements. The significant judgments and estimates used in the preparation of the consolidated financial statements relative to the adoption of PFRS 15 are more fully described in Note 3 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatements relating to the adoption of PFRS 15 on recognition of revenue from real estate sales include, among others, the following:

On recognition of revenue from real estate sales:

- Obtaining an understanding of the new revenue recognition policy of the Group and checking its compliance with the provisions of PFRS 15 and the related issuances by the Philippine Interpretations Committee and the Securities and Exchange Commission;
- Testing information technology general controls over the automated system which processes revenue transactions;
- Testing design and operating effectiveness of internal controls over contract approval;
- Examining agreements on a sample basis and checking compliance with a set of criteria for revenue recognition;
- Testing the reasonableness of management's judgment in determining the probability of collection of the consideration in a contract which involves a historical analysis of customer payment pattern and behavior;

- Testing the progress reported for the year in reference to the actual costs incurred relative to the total budgeted project development costs which includes testing of controls over recording of costs and direct examination of supporting documents relative to the measurement of progress towards complete satisfaction of performance obligation using the input method. In testing the reasonableness of budgetary estimates, we have ascertained the qualifications of project engineers who prepared the budgets and reviewed the actual performance of completed projects with reference of their budgeted costs;
- Performing physical inspection of selected projects under development to determine if the completion based on costs is not inconsistent with the physical completion of the project; and,
- Testing the adequacy of disclosures.

On prior period adjustments:

- Performing analytical review of prior period adjustments and overall review of actual results.
- Testing of information technology general controls over the automated system which generated the data used as a basis for the adjustments;
- Performing tests of mathematical accuracy and completeness of supporting contract summary; and,
- Examining supporting documents of a sample of agreements and testing compliance with the new accounting policy.

**(c) Revenue Recognition for Sale of Consumer Goods and Sales from Company-operated Quick-service Restaurants**

*Description of the Matter*

Sale of consumer goods amounting to P47.6 billion, which mainly from its Emperador business segment, represents 31% of the Group's total revenues. Revenue from sale of goods is recognized when control over the goods has been transferred at a point in time to the customer, i.e., generally when the customer has acknowledged receipt of the goods.

Sale from company-operated quick-service restaurants amounting to P25.6 billion, which mainly from its GADC business segment, represents 17% of the Group's total revenue. The Group recognizes revenue from restaurant sales at a point in time when services are rendered, that is, when food and beverage products or promotional items purchased by customers have been delivered and accepted by the customers.

We considered revenue recognition from both sources as a key audit matter since it involves significant volume of transactions, requires proper observation of cut-off procedures, and directly impacts the Group's profitability.

The Group's disclosures on its revenue recognition policy and details of total revenues are presented in Notes 2 and 23, respectively, to the consolidated financial statements.



*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

On sale of consumer goods:

- Testing the design and operating effectiveness of the Group's processes and controls over revenue recognition, approval and documentation;
- Evaluating appropriateness of the Group's revenue recognition policy in accordance with the requirements of PFRS 15;
- Testing, on a sample basis, sales invoices, delivery receipts and cash receipts of sales transactions throughout the current period to determine whether sale of goods is valid and existing;
- Confirming trade receivables using positive confirmation, on a sample basis, and performing alternative procedures for non-responding customers, such as, examining evidence of subsequent collections, or corresponding sales invoices and proof of deliveries;
- Testing sales invoices and delivery receipts immediately prior and subsequent to the current period to determine whether the related sales transactions are recognized in the proper reporting period; and,
- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per product/brand and location, and sales mix composition based on our expectations and following up variances from our expectations; and, verifying that the underlying data used in the analyses are valid.

On sales from company-operated quick-service restaurants:

- Testing the design and operating effectiveness of the Group's internal controls over the recognition and measurement of revenues from sales from company-operated quick-service restaurants;
- Testing effectiveness of the implemented I.T. general and application controls over automated systems that process revenue from company-operated quick-service restaurants;
- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per product/brand and location, and sales mix composition based on our expectations and following up variances from our expectations; and, verifying that the underlying data used in the analyses are valid;
- Assessing the impact of PFRS 15 on the revenue recognition of sales from company-operated quick-service restaurants; and,
- Performing test of completeness and cut-off testing by obtaining store reports, on a sample basis, and matching with system wide sales report.

***(d) Revenue Recognition on Gaming Operations***

*Description of the Matter*

The Group, through its Travellers business segment, is the operator of integrated gaming resorts and tourist destination, Resorts World Manila. The total revenue from gaming operations amounted to P20.0 billion in 2018 representing 13% of the Group's total revenues. In our view, revenue recognition is significant to our audit because the amount is significant and it involves voluminous transactions at any given period of time, which undergo complex automated and manual gaming processes and controls under the Group's principal gaming and gaming-related systems.

The Group's disclosures on its revenue recognition policy and details of total revenues are presented in Notes 2 and 23, respectively, to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to revenue recognition on gaming operations, which was considered to be a significant risk, included the following:

- Updating our understanding of the Group's gaming revenue processes and controls over the recognition and measurement of gaming revenues;
- Testing and evaluating the design and operating effectiveness of controls over major casino processes namely: buy-in and pay-out, float maintenance, end-of-day recording, casino credit billing and collection and month-end reconciliation procedures;
- Performing analytical review procedures on gaming revenues, drops and win rates from both gaming tables and slot machines based on our expectations, and resolving variances from our expectations through discussion with the management and corroboration of their responses whether plausible under such circumstances;
- Testing the recognition and measurement of gaming revenues by tracing a sample of transactions throughout the current period to source data to verify the accuracy of reported gaming revenues; and,
- Performing detailed observation of cash count procedures at the end of the reporting period to verify the appropriateness of the Group's cut-off procedures on gaming revenues.



**(e) Impairment of Goodwill and Trademarks with Indefinite Useful Life**

*Description of the Matter*

Under Philippine Accounting Standard 36, *Impairment of Assets*, the Group is required to annually test the carrying amounts of its goodwill and trademarks with indefinite useful lives for impairment. As of December 31, 2018, goodwill amounted to P20.2 billion, while the trademarks with indefinite useful lives amounted to P20.7 billion. We considered the impairment of these assets as a key audit matter because the amounts of goodwill and trademarks are material to the consolidated financial statements. In addition, management's impairment assessment process is highly judgmental, and is based on significant assumptions, specifically the determination of the discount rate and cash flow projections used in determining the value-in-use of the trademarks and the cash-generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

The Group's policy on impairment assessment of goodwill and trademarks with indefinite useful lives is more fully described in Note 2 to the consolidated financial statements; the estimation uncertainty on impairment of non-financial assets, including trademarks and goodwill with indefinite useful lives, is presented in Note 3 to the consolidated financial statements; while their corresponding carrying amounts are presented in Note 15 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the goodwill and trademarks with indefinite useful lives included, among others, the following:

- Evaluating the appropriateness and reasonableness of methodology and assumptions used in determining the value-in-use of cash-generating units attributable to the trademarks and goodwill, which include the discount rate, growth rate and the cash flow projections, by comparing them to external and historical data;
- Testing the calculation of valuation model for mathematical accuracy and validating the appropriateness and reliability of inputs and amounts used; and,
- Performing independent sensitivity analysis of the projections and discount rate using the valuation model used to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash generating units to exceed the recoverable amount.

**(f) Existence and Valuation of Inventories**

*Description of the Matter*

Inventories amounted to P131.4 billion as at December 31, 2018, which is mainly from its Megaworld and Emperador business segments. The valuation of inventories is at the lower of cost or net realizable value (NRV).

Real estate inventories principally comprise of land for future development, property development costs, raw land inventory, and golf and resort shares for sale while consumable inventories mostly comprise of alcoholic beverages. Future realization of inventories is affected by price changes in the costs incurred necessary to complete and make a sale. Due to the significant volume and carrying amount of inventories, and the high level of judgment in estimating its NRV, we considered the existence and valuation of inventories as significant to our audit.

The Group's disclosures on accounting policy, estimation uncertainty, and Inventories account are presented in Notes 2, 3, and 8, respectively, to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the existence and valuation of inventories included, among others, the following:

On existence of inventories:

- Performing, on a sample basis, physical inspection of real estate properties held as inventories;
- Performing a physical count test on consumer goods, on a sample basis, during the physical inventory count procedures and other test count dates, and verifying the inventory movements during the intervening periods between the actual count and reporting dates to further test the quantities of inventory items as of the reporting date; and,
- Performing substantive analytical review procedures over inventory-related ratios such as, but not limited to, inventory turnover and current period's components of inventories; and, verifying that the underlying data used in the analyses are valid.

On valuation of inventories:

- Testing the design and operating effectiveness of the method of inventory costing and measurement at the lower of cost or NRV;
- Performing a price test, on a sample basis, of inventory items by examining supporting documents such as, but not limited to, construction contracts for real estate inventories, purchase contracts and invoices, and relevant importation documents;



- Performing detailed analysis of the Group's standard costing of inventories through analytical review procedures of actual costs during the current period against the budgeted standard, and testing significant actual costs, on a sample basis, by agreeing with contracts and invoices;
- Determining whether the application of the lower of cost or NRV is appropriate and consistent with prior periods; and,
- Evaluating the sufficiency and appropriateness of the amount of allowance for inventory write-down by testing the key assumptions used on the expected realization of inventories.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

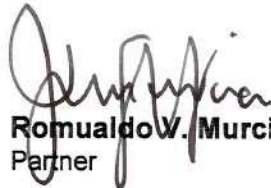


We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

The engagement partner on the 2018 audit resulting in this independent auditors' report is Romualdo V. Murcia III.

**PUNONGBAYAN & ARAULLO**

  
**By: Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 7333697, January 3, 2019, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-3 (until Nov. 29, 2019)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 12, 2019

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**  
*(With Corresponding Figures as of January 1, 2017)*  
*(Amounts in Philippine Pesos)*

	Notes	2018	December 31, 2017 (As Restated - see Note 2)	January 1, 2017 (As Restated - see Note 2)
<b><u>A S S E T S</u></b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	5	<b>P 44,779,011,533</b>	P 52,784,400,162	P 45,734,001,244
Trade and other receivables - net	6	<b>60,518,718,373</b>	48,487,383,009	37,597,955,305
Contract assets	6, 23	<b>11,131,863,695</b>	5,898,824,630	6,332,545,332
Financial assets at fair value through profit or loss	7	<b>13,617,425,147</b>	13,516,474,011	10,465,266,604
Inventories - net	8	<b>131,394,011,426</b>	115,546,769,880	103,128,613,810
Available-for-sale financial assets		-	-	66,501,898
Other current assets	9	<b>16,285,340,485</b>	13,809,238,325	11,735,773,914
Total Current Assets		<b>277,726,370,659</b>	250,043,090,017	215,060,658,107
<b>NON-CURRENT ASSETS</b>				
Trade and other receivables - net	6	<b>12,984,665,792</b>	17,365,617,746	10,397,209,523
Contract assets	6, 23	<b>11,095,415,992</b>	10,010,996,355	12,007,975,652
Advances to landowners and joint ventures	10	<b>6,910,177,902</b>	5,988,892,593	4,859,000,177
Financial assets at fair value through other comprehensive income	11	<b>459,974,884</b>	-	-
Available-for-sale financial assets - net	11	-	431,645,289	606,613,388
Investments in and advances to associates and other related parties	12	<b>7,942,876,611</b>	8,665,615,820	9,224,586,430
Property, plant and equipment - net	13	<b>117,501,643,236</b>	98,026,484,627	82,993,671,075
Investment property - net	14	<b>104,635,533,741</b>	97,228,826,949	83,061,041,641
Intangible assets - net	15	<b>41,958,580,601</b>	41,637,659,271	37,524,214,229
Deferred tax assets - net	28.1	<b>1,009,269,507</b>	801,384,002	980,756,248
Other non-current assets	9	<b>6,026,685,803</b>	5,411,938,778	5,214,905,490
Total Non-current Assets		<b>310,524,824,069</b>	285,569,061,430	246,869,973,853
<b>TOTAL ASSETS</b>		<b>P 588,251,194,728</b>	P 535,612,151,447	P 461,930,631,960

	Notes	2018	December 31, 2017 (As Restated - see Note 2)	January 1, 2017 (As Restated - see Note 2)
<b><u>LIABILITIES AND EQUITY</u></b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables	16	P 49,181,881,957	P 39,118,890,804	P 34,456,626,108
Contract liabilities	23	2,663,104,996	1,744,637,866	969,762,687
Interest-bearing loans	17	24,530,016,698	32,700,476,157	21,095,657,317
Bonds payable	18	-	9,976,270,876	39,734,990,308
Income tax payable		1,679,266,461	959,058,840	1,122,497,897
Redeemable preferred shares	19	251,597,580	251,597,580	-
Other current liabilities	20	14,134,269,900	11,981,682,468	10,055,545,566
Total Current Liabilities		92,440,137,592	96,732,614,591	107,435,079,883
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing loans	17	142,871,936,606	108,273,087,030	55,500,216,708
Bonds payable	18	25,102,042,365	24,388,714,176	22,330,589,969
Contract liabilities	23	2,705,562,299	3,047,255,773	2,488,909,001
Advances from related parties	29.6	2,385,463,118	2,329,974,989	1,741,255,704
Retirement benefit obligation	27.2	1,790,019,668	1,943,453,287	2,604,306,467
Redeemable preferred shares	19	1,712,264,245	1,857,022,803	2,013,695,292
Deferred tax liabilities - net	28.1	11,077,531,099	7,770,165,696	5,876,159,921
Other non-current liabilities	20	17,593,574,277	14,996,781,241	13,855,112,543
Total Non-current Liabilities		205,238,393,677	164,606,454,995	106,410,245,605
Total Liabilities		297,678,531,269	261,339,069,586	213,845,325,488
<b>EQUITY</b>				
Equity attributable to owners of the parent company	21	172,193,472,060	164,158,167,046	148,462,475,490
Non-controlling interest		118,379,191,399	110,114,914,815	99,622,830,982
Total Equity		290,572,663,459	274,273,081,861	248,085,306,472
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 588,251,194,728</b>	<b>P 535,612,151,447</b>	<b>P 461,930,631,960</b>

*See Notes to Consolidated Financial Statements.*

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	Notes	2018	2017 (As Restated - see Note 2)	2016 (As Restated - see Note 2)
<b>REVENUES</b>				
Sale of goods	23	P 85,275,243,031	P 77,352,038,077	P 71,985,850,475
Rendering of services - net	23	66,176,980,409	58,292,210,272	57,951,903,894
Share in net profits of associates and joint ventures - net	12	291,178,124	272,698,340	355,605,317
Finance and other income	26	5,041,904,379	2,871,675,283	2,601,016,939
		<u>156,785,305,943</u>	<u>138,788,621,972</u>	<u>132,894,376,625</u>
<b>COSTS AND EXPENSES</b>				
Cost of goods sold	24	51,609,200,621	46,044,014,062	42,760,360,987
Cost of services	24	34,962,283,633	30,022,075,157	29,055,993,363
Other operating expenses	25	31,577,455,027	26,996,069,880	24,961,252,575
Finance costs and other charges	26	6,852,983,736	6,883,871,865	7,281,866,632
		<u>125,001,923,017</u>	<u>109,946,030,964</u>	<u>104,059,473,557</u>
<b>PROFIT BEFORE TAX</b>		<b>31,783,382,926</b>	<b>28,842,591,008</b>	<b>28,834,903,068</b>
P				
<b>TAX EXPENSE</b>	28	<u>8,107,504,537</u>	<u>6,566,622,421</u>	<u>5,888,362,869</u>
<b>NET PROFIT</b>		<u>23,675,878,389</u>	<u>22,275,968,587</u>	<u>22,946,540,199</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Actuarial gains (loss) on remeasurement of retirement benefit obligation	27.2	190,629,650	950,503,573	( 807,696,890 )
Net unrealized fair value gains on financial assets at fair value through other comprehensive income	11	26,515,019	-	-
Share in other comprehensive income (loss) of associates	12	13,452,063	33,916,495	( 27,975,475 )
Deferred tax income (expense) relating to components of other comprehensive income	28.1	( 73,057,872 )	( 189,305,616 )	130,194,376
		<u>157,538,860</u>	<u>795,114,452</u>	<u>( 705,477,989 )</u>
<b>Items that will be reclassified subsequently to profit or loss</b>				
Translation adjustments	2.19	( 329,180,697 )	729,350,325	( 2,602,327,527 )
Net unrealized fair value gain (loss) on cash flow hedge	20	230,806,189	( 45,942,879 )	-
Net unrealized fair value gains (loss) on available-for-sale financial assets	11	-	26,875,114	( 10,848,693 )
Realized fair value loss (gain) on disposal of available-for-sale financial assets	11	-	( 28,356,713 )	11,942,807
Deferred tax expense relating to components of other comprehensive income	28.1	( 716,975 )	( 409,175 )	( 13,068,552 )
		<u>( 99,091,483 )</u>	<u>681,516,672</u>	<u>( 2,614,301,965 )</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>P 23,734,325,766</u>	<u>P 23,752,599,711</u>	<u>P 19,626,760,245</u>
<b>Net profit attributable to:</b>				
Owners of the parent company		P 15,121,537,752	P 15,192,000,737	P 14,916,844,215
Non-controlling interest		<u>8,554,340,637</u>	<u>7,083,967,850</u>	<u>8,029,695,984</u>
		<u>P 23,675,878,389</u>	<u>P 22,275,968,587</u>	<u>P 22,946,540,199</u>
<b>Total comprehensive income attributable to:</b>				
Owners of the parent company		P 14,884,205,202	P 16,266,944,233	P 13,355,266,398
Non-controlling interest		<u>8,850,120,564</u>	<u>7,485,655,478</u>	<u>6,271,493,847</u>
		<u>P 23,734,325,766</u>	<u>P 23,752,599,711</u>	<u>P 19,626,760,245</u>
<b>Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company:</b>				
Basic	22	<u>P 1.5252</u>	<u>P 1.5031</u>	<u>P 1.4701</u>
Diluted		<u>P 1.5231</u>	<u>P 1.4998</u>	<u>P 1.4663</u>

*See Notes to Consolidated Financial Statements.*





**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	Notes	2018	2017 (As Restated - see Note 2)	2016 (As Restated - see Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		P 31,783,382,926	P 28,842,591,008	P 28,834,903,068
Adjustments for:				
Depreciation and amortization	24, 25	6,883,015,196	5,839,552,780	5,100,711,730
Interest expense	26	4,084,166,535	5,554,066,867	4,856,184,716
Interest income	26	( 2,833,780,599 )	( 2,307,789,718 )	( 2,078,421,813 )
Unrealized foreign currency losses - net		344,806,464	285,082,501	1,833,760,579
Share in net profits of associates and joint ventures	12	( 291,178,124 )	( 272,698,340 )	( 355,605,317 )
Reversal of pre-acquisition loss (income)	26	166,615,784	( 2,715,950 )	3,314,788
Dividend income	26	( 63,767,349 )	( 12,423,602 )	( 6,312,863 )
Loss (gain) on disposal of property, plant and equipment and investment property	26	( 53,917,450 )	( 115,773,777 )	35,820,601
Stock option benefit expense	27	53,457,042	49,457,009	136,281,633
Income from acquisition and deconsolidation of subsidiaries	26	( 30,254,467 )	-	( 53,333,758 )
Gain on reversal of impairment losses	13, 26	( 19,258,000 )	( 60,504,846 )	-
Losses from property damages	13, 30, 9	-	652,604,324	-
Gain on sale of investments in an associate	26	-	( 113,069,227 )	( 82,459,513 )
Unrealized loss on interest rate swap	26	-	27,235,637	31,769,386
Gain on sale of investment in available-for-sale financial assets	26	-	( 22,230,010 )	( 11,942,807 )
Impairment loss on property, plant and equipment	26	-	-	166,497,656
Operating profit before working capital changes		40,023,287,958	38,343,384,656	38,411,168,086
Increase in trade and other receivables		( 4,439,346,489 )	( 22,117,246,689 )	( 11,496,706,235 )
Decrease (increase) in contract assets		( 5,871,792,742 )	2,430,699,999	( 4,585,130,246 )
Decrease (increase) in financial assets at fair value through profit or loss		563,823,597	( 3,051,207,407 )	1,222,113,403
Increase in inventories		( 11,419,083,682 )	( 5,278,127,959 )	( 8,619,945,222 )
Increase in other current assets		( 2,565,470,447 )	( 2,073,464,411 )	( 2,283,938,147 )
Increase (decrease) in trade and other payables		5,480,227,434	6,807,728,994	( 4,254,858,730 )
Increase in contract liabilities		396,021,988	1,333,221,951	864,667,922
Increase (decrease) in retirement benefit obligation		( 103,543,358 )	( 60,038,783 )	34,207,167
Increase in other current liabilities		2,307,720,946	1,926,136,902	1,524,966,188
Increase in other non-current liabilities		2,587,463,084	1,141,668,698	382,996,681
Cash generated from operations		26,959,308,289	19,402,755,951	11,199,540,867
Cash paid for taxes		( 4,073,223,082 )	( 5,138,190,000 )	( 4,455,061,359 )
Net Cash From Operating Activities		22,886,085,207	14,264,565,951	6,744,479,508
<i>Balance carried forward</i>		P 22,886,085,207	P 14,264,565,951	P 6,744,479,508

	Notes	2018	2017 (As Restated - See Note 2)	2016 (As Restated - See Note 2)
<i>Balance brought forward</i>		<b>P 22,886,085,207</b>	P 14,264,565,951	P 6,744,479,508
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of:				
Property, plant and equipment	13	( 17,451,001,408 )	( 19,349,174,305 )	( 15,258,990,246 )
Investment property	14	( 14,280,652,677 )	( 14,555,907,612 )	( 12,979,191,612 )
Subsidiaries, associates and business units	12	( 1,996,674,899 )	( 2,283,198,971 )	( 12,208,064,237 )
Intangible assets	15	( 60,060,427 )	( 3,012,832,940 )	-
Available-for-sale financial assets	11	-	( 15,857,795 )	( 161,284,871 )
Proceeds from:				
Disposal of property, plant and equipment and intangible asset	13, 15	397,966,277	1,519,523,083	76,795,977
Collections of advances from associates and other related parties	12	255,426,945	285,081,063	386,790,457
Disposal of subsidiary	1	10,837,209	-	-
Disposal of investment property	14	2,464,208	169,869,223	766,776
Withdrawal of investment in a joint venture		-	858,354,900	-
Sale of available-for-sale financial assets	11	-	306,432,916	1,689,935,683
Sale of investment in associates	12	-	297,454,675	343,867,951
Interest received		1,092,919,788	1,796,894,279	1,578,065,218
Advances to landowners, joint ventures and other related parties - net		( 921,285,309 )	( 255,044,624 )	( 265,563,720 )
Decrease (increase) in other non-current assets		( 616,837,264 )	( 150,905,407 )	4,052,100,127
Additional advances granted to associates		( 500,136,212 )	( 308,966,472 )	( 35,162,769 )
Cash dividends received		157,081,637	73,375,843	99,704,157
Net Cash Used in Investing Activities		( 33,909,952,132 )	( 34,624,902,144 )	( 32,680,231,109 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from interest-bearing loans and bonds	17, 18, 35	59,942,342,396	98,231,009,865	46,474,698,987
Proceeds from issuance of perpetual bonds	18, 35	2,505,213,782	-	-
Payment of interest-bearing loans and bonds	17, 18, 35	( 46,436,104,182 )	( 62,327,686,223 )	( 27,657,660,328 )
Interest paid		( 6,295,430,056 )	( 8,278,141,867 )	( 6,504,307,008 )
Dividends paid	21	( 2,628,280,582 )	( 1,719,702,265 )	( 4,846,328,637 )
Acquisition of treasury shares	21	( 2,564,518,469 )	( 629,988,966 )	-
Buyback of shares from non-controlling interest by a subsidiary	21	( 1,528,633,170 )	( 321,134,930 )	-
Advances granted and paid to related parties	29	( 925,735,618 )	( 338,467,614 )	( 1,405,950,723 )
Advances collected and received from related parties	29	675,467,194	1,333,718,613	1,330,728,915
Redemption of preferred shares	19	( 2,875,000 )	( 2,875,000 )	-
Proceeds from issuance of shares of subsidiaries		-	847,882,450	-
Payments of derivative liabilities		-	( 360,478,688 )	( 339,463,500 )
Net Cash From Financing Activities		2,741,446,295	26,434,135,375	7,051,717,706
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		( 8,282,420,630 )	6,073,799,182	( 18,884,033,895 )
<b>CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARY</b>				
		277,032,001	976,599,736	1,902,094
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>				
		52,784,400,162	45,734,001,244	64,616,133,045
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>				
		<b>P 44,779,011,533</b>	P 52,784,400,162	P 45,734,001,244

**Supplemental Information on Non-cash Investing and Financing Activities:**

- In the normal course of business, the Group enters into non-cash activities which are not reflected in the cash flows, including the following: (a) exchanges or purchases or sale on account of real estate and other assets that remain unpaid at end of period; (b) reclassifications or transfers of property between Inventories, Property and Equipment and Investment Properties; (c) borrowing costs under capitalized Inventories or Construction in Progress; (d) prior period's deposits applied during the period.
- In 2017, the Group wrote-off certain properties and equipment amounting to P652.6 million which were damaged due to the incident at Resorts World Manila (see Notes 13 and 30.9).
- In 2017, a subsidiary issued 122.4 million common shares in consideration of the accrued interest amounting to P832.3 million.

*See Notes to Consolidated Financial Statements.*

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 General Information**

Alliance Global Group, Inc. (the Company, Parent Company, or AGI) was registered with the Philippine Securities and Exchange Commission (SEC) on October 12, 1993 and began operations in 1994 as a glass-container manufacturer. On March 12, 1999, it obtained approval from the SEC to broaden its primary business into that of a holding company. Given a wider scope of business, AGI immediately diversified its investment holdings and on April 19, 1999, AGI listed its shares in the Philippine Stock Exchange (PSE). Currently, the Company and its subsidiaries, associates and joint ventures (collectively referred to as the Group) operate businesses in real estate development, tourism-entertainment and gaming, food and beverage, and quick-service restaurant under the following entities (see Notes 4 and 12):

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2018	2017	2016
<b>Subsidiaries</b>					
<b>Megaworld and subsidiaries</b>					
<b>Megaworld Corporation</b>					
Megaworld Resort Estates, Inc.	Megaworld	(a)	67%	67%	67%
Townsquare Development, Inc.	TDI	(b)	83%	83%	83%
Golden Panda-ATI Realty Corporation			50%	50%	50%
Arcovia Properties, Inc.			50%	50%	50%
Belmont Newport Luxury Hotels, Inc.			67%	67%	67%
Davao Park District Holdings Inc.			67%	67%	67%
Eastwood Cyber One Corporation	ECOC		67%	67%	67%
Global One Hotel Group, Inc.			67%	67%	67%
Global One Integrated Business Services, Inc.			67%	67%	67%
Hotel Lucky Chinatown, Inc.		(c)	67%	-	-
Landmark Seaside Properties, Inc.			67%	67%	67%
Luxury Global Hotels and Leisures, Inc.			67%	67%	67%
Luxury Global Malls, Inc.			67%	67%	67%
Mactan Oceanview Properties and Holdings, Inc.			67%	67%	67%
Megaworld Cayman Islands, Inc.		(d)	67%	67%	67%
Megaworld Cebu Properties, Inc.			67%	67%	67%
Megaworld Land, Inc.			67%	67%	67%
Citywalk Building Administration, Inc.			67%	67%	67%
Forbestown Commercial Center Administration, Inc.			67%	67%	67%
Ilo-ilo Center Mall Administration, Inc.			67%	67%	67%
Newtown Commercial Center Administration, Inc.			67%	67%	67%
Paseo Center Building Administration, Inc.			67%	67%	67%
San Lorenzo Place Commercial Center Administration, Inc.	SLPCCAI	(e)	67%	67%	-
Southwoods Lifestyle Mall Management, Inc.		(c)	67%	-	-
Uptown Commercial Center Administration, Inc.			67%	67%	67%
Valley Peaks Property Management, Inc.			67%	67%	67%
Megaworld Newport Property Holdings, Inc.			67%	67%	67%
Oceantown Properties, Inc.			67%	67%	67%
Piedmont Property Ventures, Inc.			67%	67%	67%
Prestige Hotels and Resorts, Inc.			67%	67%	67%

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2018	2017	2016
<b>Subsidiaries</b>					
<b>Megaworld and subsidiaries</b>					
Richmonde Hotel Group International Ltd.	RHGI	(f)	67%	67%	67%
San Vicente Coast, Inc.			67%	67%	67%
Savoy Hotel Manila, Inc.		(c)	67%	-	-
Stonehaven Land, Inc.			67%	67%	67%
Streamwood Property, Inc.			67%	67%	67%
Megaworld Bacolod Properties, Inc.	MBPI		62%	62%	62%
Manila Bayshore Property Holdings, Inc.	MBPHI	(g)	60%	57%	57%
Megaworld Capital Town, Inc.	MCTI	(e)	51%	51%	-
Megaworld Central Properties, Inc.			51%	51%	51%
Soho Cafe and Restaurant Group, Inc.			50%	50%	50%
La Fuerza, Inc.	LFI		45%	45%	45%
Megaworld-Daewoo Corporation	MDC		40%	40%	40%
Northwin Properties, Inc.	NWPI	(e)	40%	40%	-
Gilmore Property Marketing Associates Inc.			35%	35%	35%
Integrated Town Management Corporation			34%	34%	34%
Maple Grove Land, Inc.			34%	34%	34%
Megaworld Globus Asia, Inc.			34%	34%	34%
<b>Suntrust Properties, Inc.</b>					
Governor's Hills Science School, Inc.	SPI		67%	67%	67%
Sunrays Properties Management, Inc.			67%	67%	67%
Suntrust Ecotown Developers, Inc.	SEDI		67%	67%	67%
Suntrust One Shanata, Inc.			67%	67%	67%
Suntrust Two Shanata, Inc.			67%	67%	67%
Stateland, Inc.	STLI	(h, i)	65%	-	-
<b>Global-Estate Resorts, Inc.</b>					
Southwoods Mall Inc.	GERI	(j)	55%	55%	55%
Twin Lakes Corp.	SMI		61%	61%	61%
Twin Lakes Hotel, Inc.	TLC	(k)	61%	56%	56%
Megaworld Global-Estate, Inc.	TLHI	(h, l)	61%	-	-
Fil-Estate Golf and Development, Inc		(m)	60%	60%	60%
Golforce, Inc.			55%	55%	55%
Southwoods Ecocentrum Corp.	SWEC		33%	33%	33%
Philippine Aquatic Leisure Corp.			33%	33%	33%
Fil-Estate Properties, Inc.	FEPI		55%	55%	55%
Aklan Holdings Inc.			55%	55%	55%
Blu Sky Airways, Inc.			55%	55%	55%
Fil-Estate Subic Development Corp.			55%	55%	55%
Fil-Power Concrete Blocks Corp.			55%	55%	55%
Fil-Power Construction Equipment Leasing Corp.			55%	55%	55%
Golden Sun Airways, Inc.			55%	55%	55%
La Compañía De Sta. Barbara, Inc.			55%	55%	55%
MCX Corporation			55%	55%	55%
Pioneer I-5 Realty Corp.			55%	55%	55%
Prime Airways, Inc.			55%	55%	55%
Sto. Domingo Place Development Corp.			55%	55%	55%
Fil-Estate Industrial Park, Inc.			44%	44%	44%
Sherwood Hills Development Inc.			30%	30%	30%
Fil-Estate Urban Development Corp.			55%	55%	55%
Global Homes and Communities, Inc.			55%	55%	55%
Novo Sierra Holdings Corp.			55%	55%	55%
Elite Communities Property Services, Inc.	ECPSI	(h, l)	55%	-	-
Oceanfront Properties, Inc.	OFPI		28%	28%	28%
<b>Empire East Land Holdings, Inc.</b>					
Sonoma Premiere Land, Inc.	EELHI		55%	55%	55%
Pacific Coast Mega City, Inc.		(n)	73%	73%	73%
20th Century Nylon Shirt, Inc.	PCMI	(o)	71%	-	-
Eastwood Property Holdings, Inc.			55%	55%	55%
Empire East Communities, Inc.			55%	55%	55%
Sherman Oak Holdings, Inc.			55%	55%	55%
Valle Verde Properties, Inc.			55%	55%	55%
Laguna Bel-Air School, Inc.			40%	40%	40%

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2018	2017	2016
<b>Subsidiaries</b>					
<b>Emperador and subsidiaries</b>					
<b>Emperador Inc.</b>	EMP or Emperador	(p)	83%	82%	82%
<b>Emperador Distillers, Inc.</b>	EDI		83%	82%	82%
Alcazar de Bana Holdings Company, Inc.			83%	82%	82%
ProGreen AgriCorp, Inc.			83%	82%	82%
South Point Science Park, Inc.			83%	82%	82%
Anglo Watsons Glass, Inc.	AWGI		83%	82%	82%
Cocos Vodka Distillers Philippines, Inc.			83%	82%	82%
The Bar Beverage, Inc.			83%	82%	82%
Tradewind Estates, Inc.	TEI	(q)	83%	82%	82%
BoozyLife, Inc.	BLI	(r)	42%	-	-
Zabana Rum, Inc.		(s)	83%	82%	-
<b>Emperador International Ltd.</b>	EIL	(f)	83%	82%	82%
Emperador Asia Pte Ltd.	EA	(t)	83%	82%	82%
Grupo Emperador Spain, S.A.U.	GES	(t)	83%	82%	82%
Bodega San Bruno, S.L.	BSB	(t)	83%	82%	82%
Bodegas Fundador SLU	BFS	(t)	83%	82%	82%
Complejo Bodeguero San Patricio, SLU	CBSP	(t)	83%	82%	82%
Destilados de la Mancha S.L.	DDLDM	(t)	83%	82%	82%
Emperador Gestion S.L.	GEG	(t)	83%	82%	82%
Domecq Bodega Las Copas, S.L.	DBLC	(s)	41%	41%	-
Bodega Domecq S.A. de C.V.	BDSC	(s)	41%	41%	-
Gonzales Byass de Mexico S.A. de C.V.	GBMS	(s)	41%	41%	-
Pedro Domecq S.A. de C.V.	PDSC	(s)	41%	41%	-
Emperador Europe SARL	EES	(t)	83%	82%	82%
Emperador Holdings (GB) Limited.	EGB	(t)	83%	82%	82%
Emperador UK Limited	EUK	(t)	83%	82%	82%
Whyte and Mackay Group Limited	WMG	(t)	83%	82%	82%
Whyte and Mackay Limited	WML	(t)	83%	82%	82%
Whyte and Mackay Warehousing Ltd.	WMWL	(t)	83%	82%	82%
<b>GADC and subsidiaries</b>					
<b>Golden Arches Development</b>					
<b>Corporation</b>	GADC		49%	49%	49%
Advance Food Concepts Manufacturing, Inc.			49%	49%	49%
Red Asian Food Solutions			37%	37%	37%
Clark Mac Enterprises, Inc.			49%	49%	49%
Golden Laoag Foods Corporation			38%	38%	38%
Davao City Food Industries, Inc.			37%	37%	37%
First Golden Laoag Ventures			34%	34%	34%
McDonald's Anonas City Center			34%	34%	34%
McDonald's Puregold Taguig			29%	29%	29%
Golden City Food Industries, Inc.			29%	29%	29%
McDonald's Bonifacio Global City			27%	27%	27%
Molino First Golden Foods, Inc.			26%	26%	26%
GY Alliance Concepts, Inc.			19%	19%	19%
Golden Arches Realty Corporation	GARC	(u)	-	-	-
Retiro Golden Foods, Inc.	RGFI	(v)	-	34%	34%
<b>Travellers and subsidiaries</b>					
<b>Travellers International Hotel</b>					
<b>Group, Inc.</b>	Travellers	(w)	47%	47%	47%
Agile Fox Amusement and Leisure Corporation			47%	47%	47%
APEC Assets Limited			47%	47%	47%
Aquamarine Delphinium Leisure and Recreation, Inc.			47%	47%	47%
Bright Pelican Leisure and Production, Inc.			47%	47%	47%
Bright Leisure Management, Inc.			47%	47%	47%
Brilliant Apex Hotels and Leisure Corporation			47%	47%	47%
Coral Primrose Leisure and Recreation Corporation			47%	47%	47%



Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2018	2017	2016
Deluxe Hotels and Recreation, Inc.	DHRI		47%	47%	47%
Entertainment City Integrated Resorts & Leisure, Inc.			47%	47%	47%
FHTC Entertainment & Production, Inc.	FHTC		47%	47%	47%
Golden Peak Leisure and Recreation, Inc.			47%	47%	47%
Grand Integrated Hotels and Recreation, Inc.			47%	47%	47%
Grandservices, Inc.			47%	47%	47%
Grandventure Management Services, Inc.			47%	47%	47%
Lucky Star Hotels and Recreation, Inc.	LSHRI		47%	47%	47%
Lucky Panther Amusement and Leisure Corporation			47%	47%	47%
Luminescent Vertex Hotels and Leisure Corporation			47%	47%	47%
Magenta Centaurus Amusement and Leisure Corporation			47%	47%	47%
Majestic Sunrise Leisure & Recreation, Inc.			47%	47%	47%
Netdeals, Inc.			47%	47%	47%
Newport Star Lifestyle, Inc.			47%	47%	47%
Royal Bayshore Hotels & Amusement, Inc.			47%	47%	47%
Sapphire Carnation Leisure and Recreation Corporation			47%	47%	47%
Scarlet Milky Way Amusement and Leisure Corporation			47%	47%	47%
Sparkling Summit Hotels and Leisure Corporation			47%	47%	47%
Valiant Leopard Amusement and Leisure Corporation			47%	47%	47%
Vermillion Triangulum Amusement and Leisure Corporation			47%	47%	47%
Westside City Resorts World, Inc.	WCRWI	(x)	47%	47%	47%
Purple Flamingos Amusement and Leisure Corporation			47%	47%	47%
Red Falcon Amusement and Leisure Corporation			47%	47%	47%
Westside Theatre Inc.			47%	47%	47%
<b>Corporate and Others</b>					
Alliance Global Brands, Inc.			100%	100%	100%
McKester Pik-nik International Limited	MPIL	(f)	100%	100%	100%
Great American Foods, Inc.		(y)	100%	100%	100%
New Town Land Partners, Inc.	NTLPI		100%	100%	100%
Alliance Global Group Cayman Islands, Inc.	AG Cayman	(d)	100%	100%	100%
Boracay Newcoast Resorts, Inc.		(c)	100%	-	-
Dew Dreams International, Inc.		(s)	100%	100%	-
First Centro, Inc.	FCI		100%	100%	100%
ERA Real Estate Exchange, Inc.			100%	100%	100%
Oceanic Realty Group International, Inc.			100%	100%	100%
Greenspring Investment Holdings Properties Ltd.		(f)	100%	100%	100%
Infracorp Development, Inc.		(z)	100%	100%	-
Shiok Success International, Inc.		(s)	100%	100%	-
Travellers Group Ltd.		(f)	100%	100%	100%
Venezia Universal Ltd.		(f)	100%	100%	100%
Dew Dreams International, Ltd.		(f)	100%	100%	100%
Shiok Success International, Ltd.		(f)	100%	100%	100%
Adams Properties, Inc.	Adams		60%	60%	60%
<b>Associates</b>					
First Premiere Arches Restaurant Inc.	FPARI		49%	49%	49%
Bonifacio West Development Corporation	BWDC		31%	31%	31%
Suntrust Home Developers, Inc.	SHDI	(aa), 12.2	31%	31%	29%
Citylink Coach Services, Inc.		(bb)	31%	31%	29%
First Oceanic Property Management, Inc.		(bb)	31%	31%	29%
Palm Tree Holdings and Development Corporation	PTHDC		27%	27%	27%

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2018	2017	2016
<b>Associates</b>					
Fil-Estate Network, Inc.	FENI		11%	11%	11%
Fil-Estate Sales, Inc.	FESI		11%	11%	11%
Fil-Estate Realty and Sales Associates, Inc.	FERSAI		11%	11%	11%
Fil-Estate Realty Corp.	FERC		11%	11%	11%
Boracay Newcoast Hotel Group, Inc.	BNHGI	(cc), 12.3	8%	8%	17%
Nasugbu Properties, Inc.	NPI		8%	8%	8%
PCMI		(o)	-	11%	11%
<b>Joint Ventures</b>					
Bodega Las Copas, S.L.	BLC	(dd), 12.4	41%	41%	41%
Front Row Theatre Management, Inc.	FRTMI	(ee)	24%	24%	24%

Explanatory notes:

- (a) AGI's effective ownership interest is derived from its 44% direct ownership, 3% direct holdings of FCI, 18% direct holdings of NTLPI and 2% holdings of other subsidiaries.
- (b) AGI and Megaworld directly owns 49% and 51%, respectively.
- (c) Newly incorporated subsidiaries in 2018.
- (d) Foreign subsidiaries operating under the laws of the Cayman Islands.
- (e) Acquired subsidiaries in 2017.
- (f) Foreign subsidiaries operating under the Business Companies Act of the British Virgin Islands (BVI).
- (g) A subsidiary through 50/50 ownership of Travellers and Megaworld in 2017 and 2016. In 2018, ownership interest changed to 67% and 33% for Megaworld and Travellers, respectively.
- (h) Newly acquired subsidiaries in 2018 accounted for as business acquisitions. See Note 1.2(a)
- (i) In June 2018, Megaworld and SPI acquired common shares of STLI from previous stockholders equivalent to 17.40% and 79.74% ownership interest, respectively. See Note 1.2(a)
- (j) AGI's effective ownership interest represents its indirect holdings through Megaworld, which owns 82% of GERI as at December 31, 2018 and 2017.
- (k) In 2018, Megaworld acquired additional shares of TLC from previous stockholders thereby increasing the Group's effective ownership to 61%.
- (l) In 2018, GERI acquired all shares of ECPSI, and TLHI through TLC.
- (m) A subsidiary through 60% and 40% direct ownership of GERI and Megaworld, respectively.
- (n) A subsidiary through 60% and 40% direct ownership of EELHI and FCI, respectively.
- (o) PCMI was considered as an associate of the Group from 2015. In 2018, The Andresons Group, Inc. (TAGI) assigned 60% of its rights over PCMI to AGI. As of December 31, 2018, PCMI is 71% effectively owned by the Group through the 60% direct ownership of AGI and 20% by EELHI. Subsequently in January 2019, EELHI acquired the remaining 20% held by TAGI, thus the Group gained 100% rights over PCMI. The effective ownership of the Group over PCMI after the transaction is 82%. See Note 1.2(a).
- (p) In line with the buy-back program which started in 2017, EMP repurchased common shares in 2018 which resulted to the increase in AGI's effective ownership over EMP in 2018.
- (q) In March 2016, AGBI sold its 100% ownership over TEI to EDI, a subsidiary of EMP; hence, the Company's effective interest decreased to 82%.
- (r) In 2018, TEI acquired 51% ownership in BLI for a total consideration of P45.0 million.
- (s) Incorporated subsidiaries in 2017, except for GBMS. These are operating in the Philippines except for DBLC, a subsidiary of GES, which is operating under the laws of Spain and its subsidiaries PDSC, BDSC and GBMS which are operating under the laws of Mexico.
- (t) Subsidiaries under EIL. EA is operating under the laws of Singapore while GES and its subsidiaries BSB, BFS, GEG, CBSP and DBLC, are operating under the laws of Spain. EES is operating under the laws of Luxembourg. EGB (the ultimate UK parent) is operating under the laws of England and Wales. EUK, WMG, WML and WMWL are operating under the laws of Scotland. EA, EES and EGB are direct subsidiaries of EIL.
- (u) GADC has no ownership interest over GARC, but qualifies as a subsidiary since its operating and corporate policies and decision making are being governed by GADC.
- (v) In 2018, GADC sold its full ownership in RFGI which resulted to a gain of P19.5 million. See Note 1.2(b)
- (w) Travellers' common shares are directly owned 15% by AGI, 3% by FCI, 2% by Megaworld, 46% by Adams, 24% by Genting Hongkong Limited (GHL) and 10% by the public.
- (x) AGI's effective ownership is through 1% direct ownership, 45% through 95% ownership of Travellers, and 1% through ownership of other subsidiaries within the Group (i.e., FCI, Megaworld and Adams).
- (y) Foreign subsidiary of MPIL operating under the laws of United States of America.
- (z) In 2017, a major stockholder of AGI transferred its entire rights over Infracorp to AGI. Infracorp is a newly incorporated subsidiary engaged in infrastructure business.
- (aa) In 2017, TDI acquired shares of SHDI resulting to an increase in effective ownership over SHDI. The Group did not obtain control over SHDI as a result of the increase.
- (bb) Subsidiaries of SHDI, an associate of Megaworld. As a result of additional investment in SHDI in 2017, ownership over these associates increased in proportion to the increase in effective interest over SHDI.

- (cc) In 2017 and 2016, FEPI further sold 15% ownership interest each year over BNHGI to third parties. The Group maintained its ability to exercise significant influence over BNHGI despite the decrease in ownership. There was no disposals in 2018.
- (dd) A foreign joint venture under GES and operating under the laws of Spain.
- (ee) A joint venture through FHTC.

The Company, its subsidiaries, associates and joint ventures are incorporated and operating in the Philippines, except for such foreign subsidiaries and a joint venture as identified in the preceding table (see explanatory notes d, f, s, t, y and dd above).

AGI's shares of stock and those of Megaworld, EMP, Travellers, GERI, EELHI and SHDI are listed in and traded through the PSE.

The principal activities of the Group are further described in Note 4.

The Company's registered office and primary place of business is located at 7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City.

## **1.2 Business and Asset Acquisitions and Disposals**

### *(a) 2018 Acquisitions*

In 2018, the Group obtained control over various entities to expand its operations as disclosed in Note 1.1(h). The acquisitions were accounted for as business acquisitions, except for the acquisition of PCMI [see Note 1.1(n)] which is accounted for under the pooling-of-interest method [see Notes 2.2(a) and 2.11]. The details of the recognized amounts of identifiable net assets acquired and total consideration transferred relating to these business acquisitions are as follows:

Tangible assets	
acquired	P 3,279,496,359
Liabilities	
assumed	( <u>1,376,876,569</u> )
Net assets acquired	1,902,619,790
Non-controlling interest	( <u>84,000,072</u> )
Preacquisition loss	<u>166,615,784</u>
Net equity acquired	1,985,235,502
Fair value of cash consideration	
transferred	<u>1,974,460,838</u>
Gain on acquisition	<u>P 10,774,664</u>

Significant portion of tangible assets acquired pertains to real estate inventories. Tangible assets acquired also include cash, trade and other receivables, contract assets, property and equipment and other current assets.

As of December 31, 2018, the accounting for the acquisition of STLI is not yet complete. The fair value of assets acquired and liabilities assumed from STLI that were included in the aggregate information above include provisionary amounts and will be adjusted upon finalization of the valuation which is expected to be completed within twelve months from the date of acquisition.

As to PCMI which became a subsidiary in December 2018, the acquisition under the pooling-of-interest method of accounting [see Note 2.11(b)] resulted in additional non-controlling interest of P702.0 million representing the 20% still held by TAGI and 9% through ELI as of December 31, 2018. Significant assets acquired from PCMI pertain to real estate inventories.

The gain on acquisition are shown as part of Gain on acquisitions and deconsolidation of subsidiaries under Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

(b) *2018 Disposals*

In 2018, the Group disposed full ownership interests over RGFI thereby losing control [see Notes 1.1(ee) and 2.2(a)]. The carrying amount of net assets of the entities at the date of disposal and the resulting gain on deconsolidation are as follows:

Current assets (excluding cash)	P	1,502,687
Non-current assets		3,819,450
Current liabilities	(	12,966,403)
Non-current liabilities	(	<u>998,328</u> )
Total net liabilities	(	<u>8,642,594</u> )
Total consideration received in cash		15,500,000
Cash on hand and in banks	(	<u>4,662,791</u> )
Net cash received		<u>10,837,209</u>
Gain on deconsolidation	P	<u>19,479,803</u>

The gain on deconsolidation are shown as part of Gain on acquisitions and deconsolidation of subsidiaries under Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

(c) *2017 Acquisitions*

On various dates in 2017, the Group obtained control over various entities to expand its operations as disclosed in Note 1.1. The acquisitions were accounted for as business acquisitions [see Notes 2.2(a) and 2.11]. The details of the recognized amounts of identifiable net assets acquired and total consideration transferred are as follows:

Tangible assets acquired	P	5,782,812,627
Liabilities assumed	(	<u>55,744,865</u> )
Net assets acquired		5,727,067,762
Non-controlling interest	(	3,655,374,576)
Pre-acquisition income	(	<u>2,715,950</u> )
Net equity acquired	P	<u>2,068,977,236</u>
Fair value of cash consideration transferred	P	<u>2,068,977,236</u>

Significant portion of tangible assets acquired pertain to real estate inventories. There was no goodwill nor gain recognized on the acquisition as the fair value of consideration transferred is equivalent to the fair value of net assets acquired, net of non-controlling interest and preacquisition loss.

Also, in 2017, the Group completed the asset acquisitions (see Note 2.11) of the Domecq brand portfolio and related assets and the Grupo Garvey brands and certain assets. The total consideration amounting to P6.7 billion was allocated among the tangible and intangible properties acquired based on the relative fair value of each asset, as translated at exchange rate at the date of purchase. The intangible assets acquired pertain to various brands of brandies and wines which were assessed to have indefinite useful lives (see Note 15).

(d) *2016 Acquisitions*

In February 2016, BFS, a subsidiary of GES, acquired the Spanish brandy and sherry business (Business Unit or Bodegas Fundador) of Beam Suntory Spain, S.L. The goodwill recognized from this acquisition reflects the opportunity to strengthen the Group's position in the global drinks market, and the synergies and economies of scale expected from combined operations. [See Notes 2.2(a) and 2.11]

Also on various dates in 2016, Megaworld acquired various business entities primarily to expand its reach in the local market [see Notes 1.1, 2.2(a) and 2.11].

The details of the recognized amounts of identifiable net assets acquired, total consideration transferred, goodwill and gain on acquisition recognized are presented below.

	<u>Spanish Brandy and Sherry Business</u>	<u>Various Acquisitions by Megaworld</u>
Assets acquired:		
Tangible assets	P 6,592,734,082	P 1,131,637,070
Intangible assets	<u>6,662,974,698</u>	<u>-</u>
	<u>13,255,708,780</u>	<u>1,131,637,070</u>
Liabilities assumed	<u>-</u>	( <u>26,802,593</u> )
Net assets acquired	13,255,708,780	1,104,834,477
Non-controlling interest	-	( 675,882 )
Pre-acquisition income	<u>-</u>	<u>3,314,788</u>
Net equity acquired	<u>13,255,708,780</u>	<u>1,107,473,383</u>
Fair value of consideration transferred:		
Cash	14,718,366,134	5,000,000
Advances to related parties	<u>-</u>	<u>1,100,445,738</u>
	<u>14,718,366,134</u>	<u>1,105,445,738</u>
Goodwill (gain on acquisition)	<u>P 1,462,657,354</u>	( <u>P 2,027,645</u> )

Significant portion of tangible assets acquired includes real estate inventories, dry goods inventories and property, plant and equipment (see Note 13). The total amount of intangible assets acquired pertains to trademarks assessed to have indefinite useful lives (see Note 15).

(e) *2016 Disposals*

In 2016, the Group disposed ownership interests in various entities thereby losing control [see Notes 1.1 and 2.2(a)]. The carrying amount of net assets of the entities at the date of disposal and the resulting gain on deconsolidation are as follows:

Current assets (excluding cash)	P	9,612,358
Non-current assets		320,099,653
Current liabilities	(	133,614,177)
Non-current liabilities	(	<u>118,647,500</u> )
Total net assets		<u>77,450,334</u>
Total consideration received in cash		199,900,330
Cash and cash equivalents disposed of	(	<u>75,643,883</u> )
Net cash received		<u>124,256,447</u>
Derecognized non-controlling interest	(	<u>4,500,000</u> )
Gain on deconsolidation	P	<u>51,306,113</u>

**1.3 Approval of the Consolidated Financial Statements**

The Board of Directors (BOD) approved on April 12, 2019 the issuance of the consolidated financial statements of the Group as at and for the year ended December 31, 2018 (including the comparative consolidated financial statements as at December 31, 2017 and for the years ended December 31, 2017 and 2016, and corresponding figures as of January 1, 2017).

**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. The policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, 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 all items of income and expenses in a single consolidated statement of comprehensive income.

The Group presented a third consolidated statement of financial position as of January 1, 2017 effecting the retrospective restatements and reclassifications made in the 2017 and 2016 consolidated financial statements, as a result of the Group's retrospective adoption of new standards and interpretations as discussed in Note 2.1(c) below, that have material impact on the consolidated statement of financial position at the beginning of the preceding period, i.e. January 1, 2017. The related notes to the third consolidated statement of financial position are not required to be disclosed.

(c) *Prior Period Restatements and Reclassifications of Accounts*

The Group adopted PFRS 15, *Revenue from Contracts with Customers*, and the related Philippine Interpretations Committee (PIC) Question & Answer (Q&A) No., 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry*, which were applied retrospectively to each prior reporting period beginning January 1, 2016 in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* [see Note 2.3(a)(iv)].

The Group also adopted the following PIC Q&A retrospectively in accordance with PAS 8, which resulted in reclassification of certain accounts in its 2017 and 2016 consolidated statements of financial position, and 2017 and 2016 consolidated statements of comprehensive income.

- PIC Q&A No. 2018-11, *Classification of Land by Real Estate Developer*, requires real estate developers to classify land based on management's intention and apply the appropriate accounting treatment as required by relevant standards.
- PIC Q&A No. 2018-15, PAS 1 – *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current*, clarifies how the advances to contractors should be classified in the statement of financial position.

Moreover, the Group reclassified certain accounts in its 2017 and 2016 consolidated statements of financial position, and 2017 and 2016 consolidated statements of comprehensive income to conform to the current year presentation and classification, and correct the error in the presentation and account classification of such assets, liabilities, and expenses in the previous years including, among others, the following:

- 1) Short-term placements amounting to P3.1 billion as of December 31, 2017 and January 1, 2017 previously reported as part of Cash and Cash Equivalents account were reclassified to Restricted short-term placements under Other Current Asset account (see Note 9);
- 2) Other receivables amounting to P44.5 million as of December 31, 2017 arising from certain employees' availment of the Group's employee housing program were reclassified from current to non-current classification under Trade and Other Receivables – net account (see Note 6);
- 3) Accumulated jackpot seed money amounting to P169.3 million and P170.7 million as of December 31, 2017 and January 1, 2017, respectively, were reclassified from Other Non-current Assets account to Cash and Cash Equivalents account as this account is not restricted. The Group previously set aside a fund to settle the provision for slot jackpot liability (see Note 5);
- 4) Retention payables amounting to P3.0 billion and P1.8 billion as of December 31, 2017 and January 1, 2017, respectively, relating to construction and development of certain property and equipment were reclassified from current liability to non-current liability classification as the expected payment of these remaining payables, net of recoupment by the contractors, is for more than 12 months from the completion date of the construction and development (see Note 20);
- 5) Certain expenses amounting to P321.0 million and P283.4 million in 2017 and 2016, respectively, were reclassified from Cost of Goods Sold account to Other Operating Expenses account in the 2017 and 2016 consolidated statement of comprehensive income, to conform to the current year presentation (see Notes 24 and 25); and,
- 6) Promotional allowances were increased by P666.0 million in 2017 and P1,911.1 million in 2016 relating to the net effects of the casino rebates program and the provision for gaming points that should have reduced the gaming revenues in accordance with the fair value measurement of such derivatives, and the casino-related prizes and promotions that should have been reported as operating expenses. Adjusted Promotional allowances totaling P2,540.1 million in 2017 and P4,307.4 million in 2016 were reclassified from Cost of Services account to Revenues-Rendering of Services under Revenues account to conform to the current year presentation (see Note 23).

The effects of the restatements on the assets, liabilities and equity accounts as of December 31, 2017 and January 1, 2017 are presented in the succeeding pages.

	As of December 31, 2017			
	As Previously Reported	Effects of adoption		
		PFRS 15 and PIC Q&A 2018-12	Restatement/ Reclassification	As Restated
<i>Changes in Current Assets</i>				
Cash and cash equivalents	P 55,672,960,546	P -	(P 2,888,560,384)	P 52,784,400,162
Trade and other receivables - net	73,812,169,152	( 16,995,631,070)	( 8,329,155,073)	48,487,383,009
Contract assets	-	5,898,824,630	-	5,898,824,630
Inventories - net	91,579,134,140	( 383,985,865)	24,351,621,605	115,546,769,880
Property development costs	23,111,103,124	-	( 23,111,103,124)	-
Other current assets	10,213,596,675	537,781,266	3,057,860,384	13,809,238,325
<i>Changes in Non-current Assets</i>				
Trade and other receivables - net	34,775,424,756	( 25,583,831,102)	8,174,024,092	17,365,617,746
Contract assets	-	10,010,996,355	-	10,010,996,355
Land held for future development	25,469,878,369	-	( 25,469,878,369)	-
Investment properties - net	72,999,467,061	-	24,229,359,888	97,228,826,949
Deferred tax assets – net	800,928,952	-	455,050	801,384,002
Other non-current assets	5,120,358,496	305,749,301	( 14,169,019)	5,411,938,778
<i>Changes in Current Liabilities</i>				
Trade and other payables	( 45,648,707,657)	4,615,076,490	1,914,740,363	( 39,118,890,804)
Contract liabilities	-	( 1,744,637,866)	-	( 1,744,637,866)
Other current liabilities	( 22,178,277,568)	10,196,595,100	-	( 11,981,682,468)
<i>Changes in Non-current Liabilities</i>				
Contract liabilities	-	( 3,047,255,773)	-	( 3,047,255,773)
Deferred tax liabilities	( 12,116,387,446)	4,346,676,800	( 455,050)	( 7,770,165,696)
Other non-current liabilities	( 27,356,716,682)	<u>14,239,510,029</u>	<u>( 1,879,574,588)</u>	( 14,996,781,241)
Net increase in equity		<u>P 2,395,868,295</u>	<u>P 35,165,775</u>	
<i>Changes in Equity</i>				
Attributable to Company's Shareholders	(P162,574,974,361)	(P 1,567,318,854)	(P 15,873,831)	(P164,158,167,046)
Non-controlling interest	( 109,267,073,430)	<u>( 828,549,441)</u>	<u>( 19,291,944)</u>	( 110,114,914,815)
Net increase in equity		<u>P 2,395,868,295</u>	<u>P 35,165,775</u>	

		As of January 1, 2017			
		Effects of adoption			
		As Previously Reported	PFRS 15 and PIC Q&A 2018-12	Restatement/ Reclassification	As Restated
<i>Changes in Current Assets</i>					
Cash and cash equivalents	P	48,672,938,017	P -	(P 2,938,936,773)	P 45,734,001,244
Trade and other receivables		57,600,956,140	( 14,792,927,196)	( 5,210,073,639)	37,597,955,305
Contract assets		-	6,332,545,332	-	6,332,545,332
Inventories		84,928,119,642	( 3,229,771,645)	21,430,265,813	103,128,613,810
Property development costs		20,105,196,663	-	( 20,105,196,663)	-
Other current assets		8,235,312,421	390,847,832	3,109,613,661	11,735,773,914
<i>Changes in Non-current Assets</i>					
Trade and other receivables – net		35,678,314,324	( 30,491,178,440)	5,210,073,639	10,397,209,523
Contract assets		-	12,007,975,652	-	12,007,975,652
Land held for future development		22,079,341,640	-	( 22,079,341,640)	-
Investment properties - net		62,306,769,151	-	20,754,272,490	83,061,041,641
Other non-current assets		4,969,404,868	416,177,510	( 170,676,888)	5,214,905,490
<i>Changes in Current Liabilities</i>					
Trade and other Payables	(	38,967,103,207)	3,177,955,617	1,332,521,482	( 34,456,626,108)
Contract liabilities	(	-	969,762,687)	-	( 969,762,687)
Other current liabilities	(	22,151,381,020)	12,095,835,454	-	( 10,055,545,566)
<i>Changes in Non-current Liabilities</i>					
Contract liabilities	(	-	2,488,909,001)	-	( 2,488,909,001)
Deferred tax liabilities	(	11,454,686,710)	5,578,526,789	-	( 5,876,159,921)
Other non-current liabilities	(	26,476,910,868)	13,940,771,502	( 1,318,973,177)	( 13,855,112,543)
Net increase in equity			<u>P 1,968,086,719</u>	<u>P 13,548,305</u>	
<i>Changes in Equity</i>					
Attributable to Company's Shareholders	(P)	147,140,151,266)	(P 1,316,208,519)	(P 6,115,705)	(P)148,462,475,490)
Non-controlling interest	(	98,963,520,182)	( 651,878,200)	( 7,432,600)	( 99,622,830,982)
Net increase in equity			<u>P 1,968,086,719</u>	<u>P 13,548,305</u>	

The effects of prior period adjustments on certain line items in the consolidated statements of income for the years ended December 31, 2017 and 2016 are as follows:

	2017			
	As Previously Reported	Effects of adoption		As Restated
		PFRS 15 and PIC Q&A 2018-12	Restatement/ Reclassification	
Sale of goods	P 77,859,966,979	(P 507,928,902)	P -	P 77,352,038,077
Rendering of services	60,720,616,123	-	( 2,428,405,851)	58,292,210,272
Finance and other income	2,768,704,769	214,662,393	( 111,691,879)	2,871,675,283
Cost of goods sold	( 47,982,847,802)	1,617,857,704	320,976,036	( 46,044,014,062)
Cost of services	( 31,068,609,355)	-	1,046,534,198	( 30,022,075,157)
Other operating expenses	( 28,065,392,787)	( 124,882,059)	1,194,204,966	( 26,996,069,880)
Finance costs and other charges	( 6,382,794,291)	( 501,077,574)	-	( 6,883,871,865)
Tax expense	( 6,295,772,435)	( 270,849,986)	-	( 6,566,622,421)
Net increase in profit		<u>P 427,781,576</u>	<u>P 21,617,470</u>	
Net profit attributable to:				
Owners of the parent company	14,931,132,276	251,110,335	9,758,126	15,192,000,737
Non-controlling interest	<u>6,895,437,265</u>	<u>176,671,241</u>	<u>11,859,344</u>	<u>7,083,967,850</u>
		<u>P 427,781,576</u>	<u>P 21,617,470</u>	
Earnings per share:				
Basic	1.4773			1.5031
Diluted	1.4740			1.4998

	2016			
	As Previously Reported	Effects of adoption		As Restated
		PFRS 15 and PIC Q&A 2018-12	Restatement/ Reclassification	
Sale of goods	P 74,739,178,749	(P 2,753,328,274)	P -	P 71,985,850,475
Rendering of services	62,172,432,145	-	( 4,220,528,251)	57,951,903,894
Finance and other income	2,473,666,563	214,190,728	( 86,840,352)	2,601,016,939
Cost of goods sold	( 46,019,543,082)	2,975,775,375	283,406,720	( 42,760,360,987)
Cost of services	( 30,870,331,895)	-	1,814,338,532	( 29,055,993,363)
Other operating expenses	( 27,218,660,549)	31,656,765	2,225,751,209	( 24,961,252,575)
Finance costs and other charges	( 6,932,664,573)	( 349,202,059)	-	( 7,281,866,632)
Tax expense	( 5,880,979,710)	( 7,383,159)	-	( 5,888,362,869)
Net increase in profit		<u>P 111,709,376</u>	<u>P 16,127,858</u>	
Net profit attributable to:				
Owners of the parent company	14,801,009,539	108,554,561	7,280,115	14,916,844,215
Non-controlling interest	<u>8,017,693,426</u>	<u>3,154,815</u>	<u>8,847,743</u>	<u>8,029,695,984</u>
		<u>P 111,709,376</u>	<u>P 16,127,858</u>	
Earnings per share:				
Basic	1.4587			1.4701
Diluted	1.4437			1.4663



The effects of prior period adjustments on certain line items under cash flows from operating and investing activities in the consolidated statements of cash flows for the years ended December 31, 2017 and 2016 are as follows:

	2017			
	As Previously Reported	Effects of adoption		As Restated
		PFRS 15 and PIC Q&A 2018-12	Restatement/ Reclassification	
<i>Cash flows from operating activities</i>				
Profit before tax	P 28,122,341,976	P 698,631,562	P 21,617,470	P 28,842,591,008
Interest income	( 2,093,123,324)	-	( 214,666,394)	( 2,307,789,718)
Decrease (increase) in:				
Trade and other receivables	( 14,386,675,194)	( 7,159,144,587)	( 571,426,908)	( 22,117,246,689)
Contract assets	-	2,430,699,999	-	2,430,699,999
Inventories	( 5,971,254,910)	383,985,865	309,141,086	( 5,278,127,959)
Property development cost	( 986,067,337)	986,067,337	-	-
Other current assets	( 2,350,535,366)	( 537,781,266)	814,852,221	( 2,073,464,411)
Increase (decrease) in:				
Other current liabilities	( 106,480,791)	2,032,617,693	-	1,926,136,902
Other non-current liabilities	1,309,967,252	( 168,298,554)	-	1,141,668,698
Contract liabilities	-	1,333,221,951	-	1,333,221,951
<i>Cash flows from investing activities</i>				
Acquisition of Investment properties	( 13,842,368,413)	-	( 713,539,199)	( 14,555,907,612)
Land held for future development	( 404,398,113)	-	404,398,113	-
		-	50,376,389	
Cash at the beginning of year	48,672,938,017	-	( 2,938,936,773)	45,734,001,244
Cash at end of year	55,672,960,546	-	( 2,888,560,384)	52,784,400,162
Net effect of changes on cash flows		P -	P -	

	2016			
	As previously Reported	Effect of adoption		As Restated
		PFRS 15 and PIC Q&A 2018-12	Restatement/ Reclassification	
<i>Cash flows from operating activities</i>				
Profit before tax	P 28,699,682,675	P 119,092,535	P 16,127,858	P 28,834,903,068
Interest income	( 1,818,829,674)	-	( 259,592,139)	( 2,078,421,813)
Decrease (increase) in:				
Trade and other receivables	( 10,818,767,605)	1,110,719,002	( 1,788,657,632)	( 11,496,706,235)
Contract assets	-	( 4,585,130,246)	-	( 4,585,130,246)
Inventories	( 6,646,895,698)	( 285,841,479)	( 1,687,208,045)	( 8,619,945,222)
Property development cost	( 5,200,693,240)	5,200,693,240	-	-
Other current assets	( 2,954,106,410)	( 390,847,834)	1,061,016,097	( 2,283,938,147)
Increase (decrease) in:				
Trade and other payables	( 574,864,877)	( 3,177,955,617)	( 502,038,236)	( 4,254,858,730)
Other current liabilities	599,129,197	925,836,991	-	1,524,966,188
Other non-current liabilities	( 321,679,183)	218,765,486	485,910,378	382,996,681
Contract liabilities	-	864,667,922	-	864,667,922
<i>Cash flows from investing activities</i>				
Acquisition of Land held for future development	( 1,687,208,045)	-	1,687,208,045	-
Decrease in Other non-current assets	2,025,977,244	-	<u>2,026,122,883</u>	4,052,100,127
		-	1,038,889,209	
Cash at the beginning of year	68,593,959,027	-	( 3,977,825,982)	64,616,133,045
Cash at end of year	48,672,938,017	-	<u>( 2,938,936,773)</u>	45,734,001,244
Net effect of changes on cash flows		<u>P -</u>	<u>P -</u>	

(d) *Functional and Presentation Currency*

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

Items included in the consolidated financial statements of the Group are measured using the Parent Company's functional currency (see Note 2.19). Functional currency is the currency of the primary economic environment in which the Company operates.

**2.2 Basis of Consolidation**

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as enumerated in Note 1, after the elimination of material intercompany transactions. All material intercompany balances and transactions with subsidiaries, including income, expenses, dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are eliminated in full.

Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

In addition, shares of stock of the Company acquired by any of its subsidiaries are recognized as treasury shares at cost and these are presented as deduction in the consolidated statement of changes in equity (see Note 2.15). Any changes in their market values, as recognized separately by the subsidiaries, are likewise eliminated in full. Gain or loss on the sale of these treasury shares is presented as addition to or deduction from additional paid-in capital (APIC).

The financial statements of subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting principles. Financial statements of entities in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

The Group accounts for its investments in subsidiaries and associates, interests in joint arrangements, and transactions with non-controlling interest as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The acquisition method is applied to account for acquired subsidiaries (see Note 2.11).

Subsidiaries are consolidated from the date the Group obtains control until such time that such control ceases. The Group 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.

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.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of the related goodwill (see Note 2.12).

(b) *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint arrangement. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method from the date on which the entity becomes an associate.

Goodwill, which is the excess of the acquisition cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities, is included in the carrying amount of the investment. When the Group's share in the fair value of identifiable assets and liabilities is higher than the acquisition cost, the excess is included as income in the determination of the Group's share in net income of the associate in the period of acquisition.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Share in Net Profits (Losses) of Associates and Joint Ventures account in the consolidated statement of comprehensive income. These changes include subsequent depreciation, amortization and impairment of the fair value adjustments of the associates' assets and liabilities.

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

Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity, for example, resulting from the associates' accounting for AFS financial assets, are recognized in other comprehensive income or equity of the Group, as applicable.

Any non-income related equity movements of the associates that arise, for example, from the distribution of dividends or other transactions with the associates' shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeded the accumulated share of losses that has previously not been recognized. Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) *Interests in Joint Arrangements*

For interest in a joint operation, the Group recognizes in its consolidated financial statements its share of the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint operation. No adjustments or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint operation are recognized in the separate financial statements of the operators.

For interest in a joint venture, the Group recognizes in its consolidated financial statements its interest using the equity method. Under the equity method, the interest in a joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share in the profit or loss of the joint venture after the date of acquisition. Unrealized gains arising from transactions with joint venture are eliminated to the extent of the Group's interest in joint venture against the related investment. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

(d) *Transactions with Non-Controlling Interest*

The Group's transactions with non-controlling interest 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 non-controlling interest that result in gains and losses for the Group are also recognized in equity. (See Note 2.15)

The Parent Company holds beneficial interests in various subsidiaries, associates and joint ventures as presented in Notes 1.1 and 12.

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

(a) *Effective in 2018 that are Relevant to the Group*

The Group adopted for the first time the following new standards, interpretation, amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 9	:	Financial Instruments
PFRS15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration

Annual Improvements to  
PFRS (2014-2016 Cycle)  
PAS 28 (Amendments) : Investment in Associates and Joint  
Ventures – Measuring an Associate  
or Joint Venture at Fair Value

Discussed below and in the succeeding page are the relevant information about these new standards, interpretation, amendments and annual improvements.

- (i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provide a non-exhaustive list of examples constituting change in use. The application of amendments had no impact on the Group's consolidated financial statements.
- (ii) PFRS 2 (Amendments), *Share-based Payment*. The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have no significant impact on the Group's consolidated financial statements.
- (iii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);
  - an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The Group's new accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.4 and 2.13 while the related credit risks are presented in Note 31.2.



The Group adopted PFRS 9 using the transitional relief allowed by the standard which means the Group has to recognize the effect in the opening balance of Retained Earnings in the current year only and does not have to restate its prior period's financial statements.

The application of the ECL methodology based on the stages of impairment assessment for trade and other receivables resulted in the recognition of allowance for credit losses amounting to P332.4 million and deferred tax asset amounting P44.9 million as of January 1, 2018, which were charged against the opening balance of Retained Earnings account. The Group did not recognize deferred tax asset amounting to P54.8 million because it is not certain that this would be realized in the future.

The adoption of PFRS 9 did not affect the measurement of the Group's financial assets as they continue to be measured at cost, FVTPL and FVOCI, except that accumulated FV in OCI cannot be transferred subsequently to profit or loss anymore. Presented below are the classifications of the Group's financial assets under PFRS 9 and their equivalent in PAS 39 as at January 1, 2018 and December 31, 2017, respectively.

<u>Financial Asset</u>	<u>Notes</u>	<u>Classification before PFRS 9</u>	<u>Classification under PFRS 9</u>
<b>Financial assets at FVTPL</b>	7	At FVTPL	At FVTPL
<b>Financial assets at FVOCI</b>	11	AFS financial assets	At FVOCI
<b>Financial assets at amortized cost:</b>			
Cash and cash equivalents	5	Loans and receivables	At amortized cost
Trade and other receivables	6	Loans and receivables	At amortized cost
Advances to related parties	12	Loans and receivables	At amortized cost
Time deposits	9	Loans and receivables	At amortized cost
Property mortgage receivable	9	Loans and receivables	At amortized cost
Refundable deposits	9	Loans and receivables	At amortized cost

Further, the adoption of PFRS 9 has no impact on the classification and measurement of financial liabilities on the Group's financial statements. As of December 31, 2018 and 2017, the Group's financial liabilities are classified and measured at amortized cost except for derivative liabilities which are measured at FVTPL.

- (iv) PFRS 15, *Revenue from Contracts with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Relative to the adoption of PFRS 15 in the Philippines, the FRSC also approved the issuance of the following:

- PIC Q&A 2016-04, *Application of PFRS 15, “Revenue from Contracts with Customers,” on Sale of Residential Properties under Pre-completion Contracts*. This Q&A clarifies that sales of residential properties under pre-completion stage is recognized over time on the basis that the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.
- PIC Q&A 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry*. This Q&A provides guidance on the application of PFRS 15 to real estate industry.
- PIC Q&A 2018-14, *PFRS 15 – Accounting for Cancellation of Real Estate Sales*. This Q&A clarifies the appropriate accounting treatment for cancellation of real estate sales.

Relative to the adoption of PFRS 15 and relevant PIC Q&As, the SEC issued the following Memorandum Circulars (MC):

- MC No. 14 series of 2018. This circular allows the deferral of the following concepts from PIC Q&A 2018-12:
  - (a) accounting for the significant financing component in a contract to sell
  - (b) treatment of land in the determination of percentage of completion
  - (c) treatment of uninstalled materials in the determination of percentage of completion
- MC No. 3 series of 2019. This circular allows the deferral of the application of PIC Q&A 2018-12-H, *Accounting for Common Usage Service Area Charges*, and PIC Q&A 2018-14, *Accounting for Cancellation of Real Estate Sales*.

The Group elected to defer the adoption of the accounting for the significant financing component in a contract to sell under PIC P&A 2018-12 in accordance with MC No. 14 series of 2018 and the measurement of repossessed inventory at fair value under PIC P&A 2018-14 in accordance MC No. 3 series of 2019.

Had the Group elected not to defer the above specific provisions, it would have the following impact in the consolidated financial statements:

- The transaction price would have been lower for seller-financed contracts and higher for buyer-financed contracts.
- The carrying amount of all repossessed inventory would have been higher and gain from repossession would have been recognized on most sales cancellation.

The Group's adoption of PFRS 15 has resulted in changes in its accounting policies (see Note 2.16) and adjustments to the amounts recognized in the Group's consolidated financial statements. The Group has applied PFRS 15 retrospectively to all outstanding contracts as of January 1, 2016 in accordance with the standard's transitional provisions. The Group has made the following adjustments and reclassifications to its prior period financial statements:

- reclassified portion of Trade and other receivables – net relating to rights to payment which are conditioned upon the completion of units sold to Contract Assets account
- restated the balances of Property Development Costs, Residential, Condominium Units, Golf and Resort Shares for Sale, Real Estate Sales, and Cost of Goods Sold to reflect policy changes on the determination of percentage of completion
- presented Property Development Costs, and Residential, Condominium Units, Golf and Resort Shares for Sale as a single line item in the consolidated statement of financial position with the account title Inventories
- restated interest income on real estate sales relating to trade receivables recognized upon full satisfaction of the performance obligation
- capitalized commissions directly related to contract acquisitions, previously charged under Other Operating Expenses in the consolidated statement of income, presented partly under Other Current Assets and Other Non-Current Assets in the consolidated statement of financial position and presented the related amortization under Operating Expenses in the consolidated statement of income
- recognized loss on cancellation as a result of the difference between the carrying amount of the Trade and Other Receivables – net and Contract Asset to be derecognized and the cost of the repossessed property and presented such loss as part of Finance Cost and Other Charges
- recognized Contract Liabilities account for the amount of consideration received from customers in excess of the amount the Group has rights to base on the progress of the development of the property sold
- restated Deferred Tax Expense and Deferred Tax Liabilities – net to account for the temporary differences on the adjustments made

The effects of the retrospective application of PFRS 15 and the various PIC Q&A, as discussed in the foregoing, were summarized in Note 2.1(c). The Group applied the practical expedient under PFRS 15 which allowed the Group not to present the amount of the transaction price allocated to the unsatisfied performance obligations as of the end of the comparative periods presented.

- (v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this amendment has no impact on the Group's consolidated financial statements.
- (vi) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification* is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. The application of this amendment has no impact on the Group's consolidated financial statements.

(b) *Effective in 2018 that are not Relevant to the Group*

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's consolidated financial statements:

PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9, Financial Instruments, with PFRS 4, <i>Insurance Contracts</i>
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short Term Exemptions

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

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

- (ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture.
- (iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.
- (iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

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

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

- (v) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires an entity to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, an entity has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.
- (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, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or 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.
- (vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
  - PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.



## 2.4 *Financial Assets*

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

### (a) *Classification and Measurement of Financial Assets in Accordance with PFRS 9*

The classification and measurement of financial assets is driven by the Company's business model for managing the financial assets ("business model test") and the contractual cash flow characteristics of the financial assets ("cash flow characteristics test") to achieve a particular business objective. The business model is determined at a higher level of aggregation (portfolio or group of financial assets managed together) and not on an instrument-by-instrument approach to classification (i.e., not based on intention for each or specific characteristic of individual instrument) in order to achieve the stated objective and, specifically, realize the cash flows.

Beginning January 1, 2018, financial assets, other than those designated and effective as hedging instruments, are initially measured at fair value and then subsequently measured either at amortized cost or FVOCI or FVTPL, depending on the classification determined at initial recognition. The initial measurement includes transaction costs, except for those at FVTPL in which the related transaction costs are recognized in profit or loss. The classification of the Company's financial assets as of December 31, 2017 is presented in Note 2.3(a)(iii).

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

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

- Business model test: 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,
- Cash flow characteristics test: the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, financial assets that are classified at amortized cost are initially measured at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented as Cash and Cash Equivalents (see Note 5), Trade and Other Receivables (except Advances to contractors and suppliers) (see Note 6), Advances to associates and other related parties [included under Investments in and Advances to Associates and Other Related Parties account (see Note 12)], Restricted short-term placements (see Note 9), Time deposits and Refundable security deposits, and Property mortgage receivable [included under Non-current Other Assets account (see Note 9)].

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise 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.

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

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

Financial assets are classified at FVOCI if both of the following conditions are met:

- Business model test: they are held under a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset ("hold to collect and sell"); and,
- Cash flow characteristics test: SPPI on the principal amount outstanding.

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. 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 is transferred to profit or loss.

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

Equity instruments that are not held for trading may be irrevocably designated at FVOCI at initial recognition on an instrument-by-instrument basis; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as FVTPL or it is a contingent consideration recognized arising from a business combination. Dividends received are recognized in the 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 they clearly represent a recovery of the part of investment. Fair value changes recognized in OCI are not reclassified to profit or loss in subsequent periods, instead these are transferred directly to retained earnings.

*(iii) Financial Assets at Fair Value Through Profit or Loss*

Financial assets are classified under FVTPL if they do not meet the conditions for measurement at amortized cost or FVOCI, instead these are held within a business model whose objective is to realize changes in fair values through the sale of the assets. These include financial assets that are held for trading, which are acquired for the purpose of selling or repurchasing in the near term; designated upon initial recognition as FVTPL; or mandatorily required to be measured at fair value. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Furthermore, equity instruments are classified as financial assets at FVTPL, unless it is not held for trading and designated at FVOCI at initial recognition. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

The Group's financial assets at FVTPL consist mainly of investments in marketable debt and equity securities and derivative instruments which are held for trading purposes or designated at FVTPL (see Note 7).

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Finance and Other Income account in the consolidated statements of comprehensive income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Finance and Other Income account in the consolidated statements of comprehensive income.

*(b) Reclassification of Financial Assets*

The Group can only reclassify financial assets if the business model for managing those financial assets changes. A change in the business model will take effect only at the beginning of the next reporting period following the change.

- From amortized cost to FVTPL: Fair value is measured at reclassification date, with the difference between the amortized cost and fair value recognized as gain or loss in profit or loss.

- From amortized cost to FVOCI: Fair value is measured at reclassification date, with the difference between the amortized cost and the fair value recognized as gain or loss in other comprehensive income (OCI). The effective interest rate and the measurement of ECL remain the same.
- From FVTPL to amortized cost: Fair value at the reclassification date becomes its new gross carrying amount. The effective interest rate is determined on the basis of the fair value at reclassification date, which is now treated as the date of initial recognition.
- From FVTPL to FVOCI: The financial asset continues to be measured at fair value.
- From FVOCI to amortized cost: Fair value at the reclassification date becomes its new gross carrying amount. The cumulative gain or loss previously recognized in OCI is removed from equity and adjusted against the fair value of the financial asset at reclassification date. As a result, the measurement at reclassification date is as if the financial asset had always been measured at amortized cost. This adjustment affects OCI but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of ECL remain the same.
- From FVOCI to FVTPL: The financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in OCI is reclassified to profit or loss as a reclassification adjustment at reclassification date.

There is no reclassification of financial assets in 2018, as discussed in Note 2.3(a)(iii).

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

Up to December 31, 2017, the Group's financial assets other than those designated and effective as hedging instruments (see Note 2.5) were being classified on initial recognition into four categories, depending on the purpose for which the investments were acquired: financial assets at FVTPL, loans and receivables, held-to-maturity investments and AFS financial assets. The Group did not have held-to-maturity investments as of December 31, 2017.

The initial recognition and subsequent measurement did not change with the adoption of PFRS 9.

Regular purchases and sales of financial assets were recognized on their trade date. All financial assets that were not classified as at FVTPL were initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL were initially recorded at fair value and the related transaction costs were recognized in profit or loss. A more detailed description of the categories of financial assets relevant to the Group as of December 31, 2017 are presented in the succeeding pages.

(i) *Financial Assets at FVTPL*

This category did not differ from that covered by PFRS 9. Financial assets at FVTPL were measured at fair value and changes therein are recognized in profit or loss. They were classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

The Group's financial assets included in this category consist mainly of investments in marketable debt and equity securities and derivative instruments (see Note 7).

(ii) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any [see Notes 2.4(c)(ii) and 3.2(b)]. They are included in current assets, except for maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents (see Note 5), Trade and Other Receivables (except Advances to contractors and suppliers) (see Note 6), Advances to associates and other related parties [included under Investments in and Advances to Associates and Other Related Parties account (see Note 12)], Restricted short-term placements, Time deposits and Refundable security deposits, and Property mortgage receivable [included under Other Assets account (see Note 9)].

(iii) *AFS Financial Assets*

This category included non-derivative financial assets that were either designated to this category or did not qualify for inclusion in any of the other categories of financial assets. They were included in non-current assets classification in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months after the end of the reporting period.

All financial assets within this category were subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which were measured at cost, less impairment loss, if any [see Notes 2.4(c)(iii) and 2.4(e)(ii)]. Gains and losses from changes in fair value were recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Net Unrealized Gains (Losses) on Available-for-sale Financial Assets (AFS) account in equity (see Note 2.15), except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in Net Unrealized Gains (Losses) on AFS Financial Assets is reclassified from equity to profit or loss and is presented as reclassification adjustment within consolidated other comprehensive income even though the financial asset has not been derecognized.

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

Beginning January 1, 2018, the Group assesses impairment using ECL model on a forward-looking basis for financial assets carried at amortized cost and debt instruments measured at FVOCI. The carrying amount of the financial asset at amortized cost would be reduced either directly or through the use of an allowance account. The loss allowance for financial assets at FVOCI, however, is carried in OCI and does not reduce the carrying amount of the financial assets.

Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, and reasonable and supportable forecasts that affect collectibility of the future cash flows of the financial assets. The Group considers all reasonable and supportable information that is available without undue cost or effort, as well as observable market information about the credit risk of the particular financial instrument or similar financial instruments.

The Group applies the simplified approach in measuring ECL, which uses a lifetime ECL allowance for all trade and other receivables and contract assets using provision matrix approach and loss rates approach, as the case may be. The lifetime ECL is estimated based on the expected cash shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. To calculate the ECL, 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 Notes 3.2(b) and 31.2].

For the other financial assets measured at amortized cost, the Company applies the low credit risk simplification and measures the ECL on the financial assets based on the credit losses expected to result from default events that are possible within the next 12 months (12-month ECL) until there is a significant increase in credit risk since origination, at which point, the loss allowance will be based on lifetime ECL. When there has been a significant increase in credit risk on a financial asset since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime ECL).

To calculate the ECL of related parties, the Group 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.



Measurement of the ECL is determined by a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The key elements used in the calculation of ECL are as follows:

- *Probability of Default* – is an estimate of likelihood of default over a given time horizon.
- *Loss Given Default* – 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.
- *Exposure at Default* – represents the gross carrying amount of the financial instruments subject to the impairment calculation.

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

As of December 31, 2017, the Group recognized impairment loss at the end of each reporting period when there is objective evidence that a financial asset or a group of financial asset is impaired. The Group recognized impairment loss based on the category of financial assets as presented below.

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate [see Note 2.4(c)(ii)].

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss. [See Note 3.2(b)]

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

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

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed. [See Note 3.1(f)]

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

When a decline in the fair value of an AFS financial asset [see Note 2.4(c)(iii)] has been recognized in other comprehensive income and there is objective evidence that the asset is impaired [see Note 3.1(b)], the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

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

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

All income and expenses, including impairment loss, relating to financial assets that are recognized in profit or loss are presented as part of Finance and Other Income and Finance Costs and Other Charges accounts in the consolidated statement of comprehensive income (see Note 26).

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

(g) *Derecognition of Financial Assets*

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

**2.5 *Derivative Financial Instruments and Hedge Accounting***

The Group occasionally uses derivative financial instruments to manage its risks associated with foreign currency and interest rates. Derivatives are recognized initially and subsequently at fair value. Such derivatives are carried as assets when there is gain in the net fair value and as liabilities when there is loss in net fair value. Any gains or losses arising from changes in fair value of derivative financial instruments which are not designated as accounting hedges are recognized directly in profit or loss [see Note 2.4(a)].

The Group uses hedge accounting when it assigns hedging relationships between a hedging instrument, usually a derivative financial instrument, and a hedged item. The hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness to qualify for hedge accounting. The hedging relationship must be expected to be highly effective over the period for which it is designated as cash flow hedge.

Changes in fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included under Revaluation Reserves in equity to the extent that the hedge is effective. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

If the hedged future cash flows are no longer expected, the amount that has been accumulated in Revaluation Reserves shall be immediately reclassified to profit or loss.

Gaming transactions of the Group with fixed-odds wagers known at the time of bet are considered derivative transactions wherein the Group takes a position against a patron and the resulting unsettled position becomes a derivative instrument under PFRS 9 (previously under PAS 39) that is settled by the Group to or collected from the patron when the outcome of the wager has been determined. See Note 2.16 for the accounting policy regarding gaming transactions covered under PFRS 9 (previously under PAS 39).

The derivative liability arising from outstanding or unwon slot machine jackpot is recognized as Slot jackpot liability included under Trade and Other Payables account in the consolidated statement of financial position.

## **2.6 Inventories**

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using weighted average method, except for food, paper, and promotional materials and supplies which use the first-in, first-out method. Finished goods and work-in-process include the cost of raw materials, direct labor and a proportion of manufacturing overhead (including an element of depreciation) based on normal operating capacity. The cost of raw materials includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities. (See Note 8)

NRV 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. NRV of raw materials, spare parts and other operating supplies is the current replacement cost. [See Note 3.2(c)]

Real estate for sale are carried at the lower of cost and NRV. Cost includes accumulated costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction (see Note 2.17). Accounting policies for real estate development transactions are discussed in more detail in Note 2.7.

## **2.7 Real Estate Transactions**

Cost of inventories includes acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of the property to the Group; related property development costs; and borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Group (see Note 2.17). All costs relating to the real estate property sold are recognized as expense as the work to which they relate is performed.

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

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

Repossessed property arising from sales cancellation is recognized at cost. The difference between the carrying amount of the receivable or contract asset to be derecognized and the cost of the repossessed property is recognized in the consolidated statement of income.

## **2.8 Other Assets**

Other assets presented either under current or non-current assets classification in the consolidated statement of financial position pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. (See Notes 9 and 2.20)

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), such assets are classified as non-current assets.

## **2.9 Property, Plant and Equipment**

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. As no finite useful life for land can be determined, the related carrying amount is not depreciated. Land held for use in production or administration is stated at cost less any impairment in value. (See Note 13)

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use, including borrowing costs (see Note 2.17) and asset retirement obligation (ARO) relating to property and equipment installed/constructed on leased properties [see Note 3.2(n)]. GADC is legally required under various lease agreements to dismantle the installations and restore the leased sites at the end of the lease term. It is also a Group's policy to remove permanent improvements or additions which contain designs and configurations inherent to GADC's business signs, trademarks, trade names, patent and other similar intellectual property rights belonging to McDonald's Corporation (McDonald's) upon the termination or expiration of lease contract. The present value of ARO is recognized as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The outstanding ARO as at the end of the reporting period is presented as part of Other Non-Current Liabilities account in the consolidated statement of financial position (see Note 20).

Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows: [see Note 3.2(h)]

Buildings and land improvements	5 to 50 years
Condominium units	10 to 25 years
Machinery and equipment	2 to 12 years
Fixtures and other equipment	3 to 10 years
Transportation equipment	3 to 10 years

Leasehold improvements are amortized over the life of the assets of 5 to 40 years or the term of the lease, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.17) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

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

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.

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

An item of property, plant and equipment, including the related accumulated depreciation, amortization and impairment losses, is derecognized upon sale or 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 Investment Property***

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property and are carried at cost less accumulated depreciation and any impairment in value, except for land which is not subjected to depreciation [see Notes 2.20, 3.1(g), 3.2(e) and 14)].

Cost capitalization, depreciation, impairment loss and asset derecognition are recorded in the same manner as in Property, Plant and Equipment (see Note 2.9). Depreciation of investment property (excluding land) is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years [see Note 3.2(h)].

Transfers to, or from, investment property shall be made when and only when there is a change in use or purpose for such property.

### ***2.11 Business Combinations and Asset Acquisitions***

#### ***(a) Accounting for Business Combination using the Acquisition Method***

A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members and participant. When a unit acquired does not constitute a business, it is accounted for as an asset acquisition. Under the asset purchase accounting, the purchase costs are allocated to identifiable assets and liabilities based on relative fair values of individual items, goodwill or gain on bargain purchase is not recognized, and transaction costs are capitalized.

Business acquisitions [see Note 3.1(k)] are accounted for using the acquisition method of accounting. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Identifiable assets acquired and liabilities, including contingent liabilities, assumed are measured initially at their fair values at the acquisition date [see Note 3.2(p)]. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.



The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly either in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any existing equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed (see Note 2.20). Negative goodwill, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost, is recognized directly to income [see Note 2.2(a)]. 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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the date of acquisition that if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its fair value at the date of acquisition (the date the Group attains control) and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the date of acquisition that have previously been recognized in other comprehensive income are reclassified to profit or loss in the consolidated statement of comprehensive income, where such treatment would be appropriate if such interests were disposed of.

(b) *Accounting of Business Combination using the Pooling-of-interests Method*

Business combinations arising from transfers of interests in entities that are under the common control of the principal stockholder are accounted for under the pooling-of interests method. Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting; hence, the assets and liabilities are reflected in the consolidated financial statements at carrying values and no adjustments are made to reflect fair values or recognize any new assets or liabilities, at the date of the combination that otherwise would have been done under the acquisition method. No restatements are made to the financial information in the consolidated financial statements for periods prior to the business combination as allowed under PIC Q&A No. 2012-01, PFRS 3.2 – *Application of Pooling of Interest Method for Business Combination of Entities under Common Control in Consolidated Financial Statements*; hence, the profit and loss of the acquiree is included in the consolidated financial statements for the full year, irrespective of when the combination took place. Also, no goodwill is recognized as a result of the business combination and any excess between the net assets of the acquiree and the consideration paid is accounted for as “equity reserves”, which will eventually be closed to additional paid-in capital. Also, any pre-acquisition income and expenses of a subsidiary are no longer included in the consolidated financial statements.

**2.12 Intangible Assets**

Intangible assets include goodwill, trademarks, leasehold rights, computer software and franchise fee. Except goodwill and some specific trademarks, all other intangible assets have finite lives and are carried at cost less accumulated amortization and any impairment in value. Goodwill and trademarks with indefinite useful lives are not amortized, but are reviewed for impairment at least annually (see Notes 2.11, 2.20 and 15).

The cost of trademarks, leasehold rights, computer software and franchise fee includes the acquisition price and other direct costs. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the assets [see Note 3.2(h)] as follows:

Trademarks [except those with indefinite useful lives (see Note 15)]	10 years
Computer software	3 years
Franchise fee	10 years

Capitalized costs for trademarks with indefinite useful lives are not amortized. In addition, these assets are subject to annual impairment testing as described in Note 2.20. When these assets are retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

Costs associated with maintaining computer software and any costs associated with research activities are recognized as expense in profit or loss as incurred.

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

Financial liabilities, which include Interest-bearing Loans (see Note 17), Bonds Payable (see Note 18), Trade and Other Payables (except tax-related payables) (see Note 16), Commission payable (see Note 20), Retention payable (see Notes 16 and 20), Advances from Related Parties (see Note 29.6), Redeemable Preferred Shares [see Notes 3.1(m) and 19), and Equity-linked debt securities (ELS) (see Note 20), Derivative Liability and Guaranty deposits [presented as part of Other Non-Current Liabilities (see Note 20)] are recognized when the Group becomes a party to the contractual agreements of the instrument.

All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Finance Costs and Other Charges in the consolidated statement of comprehensive income (see Note 26).

Interest-bearing Loans, Bonds Payable and Equity-linked debt securities are raised for support of long-term funding of operations. These 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 these are not settled in the period in which they arise.

Trade and Other Payables, Advances from Related Parties and Guarantee deposits are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Redeemable Preferred Shares of GADC and TLC which are mandatorily redeemable at the option of the holder, are recognized at fair value, net of transaction costs, on inception date and presented as a liability in the consolidated statement of financial position; the liability is subsequently measured at amortized cost (see Note 19). The corresponding accretion of the liability and the dividends paid on those shares are charged as part of Interest expense under Finance Costs and Other Charges account (see Note 26) in the consolidated statement of comprehensive income.

Dividend distributions to shareholders are recognized as financial liabilities on the record date set upon declaration by the BOD.

The Group's Derivative liability arising from financial instruments designated as cash flow hedges is recognized and subsequently measured in accordance with its hedge accounting policy (see Note 2.5). All other derivative liabilities are measured at fair value. (See Note 20)

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 consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

## ***2.14 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 commitment that has resulted from past events.

[See Note 3.1(o)]

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. Contingent asset is not recognized, but disclosed where an inflow of economic benefits is probable. The asset is only recognized when it is virtually certain that the inflow of economic benefits will arise to the Group.

## ***2.15 Equity***

Capital stock represents the nominal value of shares that have been issued (see Note 21.1).

APIC includes any premiums received on the issuance or reissuance of capital stock. Any transaction costs associated with such issuances of shares are deducted from APIC, net of any related income tax benefits. Excess of proceeds from sale of treasury shares over acquisition cost of such treasury shares is also added to APIC. (See Note 21.2)

Treasury shares are AGI shares reacquired by the Company but not cancelled or AGI shares held by subsidiaries for investment purposes. These are carried at cost of reacquiring such shares (see Notes 2.2 and 21.3).

Net actuarial gains or losses on post-employment benefit plan pertain to actuarial gains or losses from remeasurement of post-employment benefit obligation and the Group's share in other comprehensive income or loss of associates and joint ventures.

Net unrealized fair value gains or losses on financial assets as FVOCI pertains to cumulative mark-to-market valuations on such securities [see Note 2.4(a)(iii)].

Accumulated translation adjustments represent the translation adjustments resulting from the translation of foreign currency denominated financial statements of certain subsidiaries into the Group's presentation currency [see Note 2.19(b)(iii)].

Revaluation reserves on cash flow hedges pertain to the cumulative effective portion of gains and losses recognized on hedging instruments in a cash flow hedge (see Note 2.5).

Other reserves include legal reserves and reserves from changes in ownership interest in subsidiaries that do not result in a loss of control. Legal reserves represent the statutory requirements in Luxembourg, which comprise of net wealth tax reserve and capital reserve.

Dilution gain or loss arises when an investor or the Group exercises its pre-emptive rights to maintain its ownership interest in an investee. This represents the difference between the book value per share in an investee versus the Group's offer price at the time the rights are exercised. This also includes the Group's share in previous period's profit (loss) as a result of the current increase (decrease) in equity ownership over its subsidiaries. Dilution gain or loss is recognized on investments of which the Group continues to exercise control. (See Note 21.4)

Share options represent the value of share options during vesting period upon recognition of share-based remuneration expense in profit or loss [see Notes 2.21(d) and 21.6].

Retained earnings, the appropriated portion of which is not available for dividend declaration, represent all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income, reduced by the amount of dividends declared (see Note 21.7).

Non-controlling interests represent the portion of the net assets and profit or loss not attributable to the Parent Company's shareholders which are presented separately in the Group's consolidated statement of comprehensive income and within the equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity. [See Notes 2.2(d), 2.11 and 21.8]

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

Revenue arises mainly from sale of consumer goods and real properties, rendering of services which include gaming-related activities and leasing activities, and interest income.

Revenue is recognized in a manner that depicts the pattern of goods and services to customers at an amount to which the Group expects to be entitled in exchange for those goods and services. The focus of revenue recognition is on the transfer of control of goods or services, which could be at a point in time or over time, following this five-step process:

1. Identify the contract with a customer;
2. Identify the performance obligation (distinct goods or services promised);
3. Determine the transaction price (including fixed amounts or variable amounts, or both, financing components, non-cash consideration, consideration payable to customer, if any);
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) performance obligations are satisfied (at a point in time or over time).

For Step 1 to be achieved, the following five gating criteria must be present:

- a. the parties to the contract have approved the contract either in writing or in accordance with other customary business practices and committed to perform their respective obligations;
- b. each party's rights regarding the goods or services to be transferred or performed can be identified;
- c. the payment terms for the goods or services to be transferred or performed can be identified;
- d. 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,
- e. collection of the consideration in exchange of the goods and services is probable (i.e., more likely than not to occur).

A contract, for purposes of revenue recognition, does not exist if each party has a unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party.

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:

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

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

In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of consumer goods* – Revenues from sale of goods are recognized at a point in time, when the customer has acknowledged the receipt of the goods.
- (b) *Rendering of services* – Revenue is recognized over time (i.e., time-and-materials basis as the services are provided) until the performance of contractually agreed tasks has been substantially rendered.



- (c) *Real estate sales* – 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. Revenue recognized from real estate sales is presented as part of Sales of Goods account in the consolidated statements of comprehensive income.

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

For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from sales is used by MEG, GERI, EELHI, SPI, ECOC, MBPHI, SEDI, LFI, API, MGAI, MCTI and STLI.

- (d) *Sale of undeveloped land and golf and resort shares (included under RE Sales)* – Revenues on sale of undeveloped land and golf and resort shares for sale are recognized at point in time when control on the undeveloped land and golf and resort shares have passed to the buyer.
- (e) *Food, beverage and others* – Revenues are recognized at point in time upon delivery to and receipt of consumer goods by the customer. Invoice for consumer goods transferred are due upon receipt by the customer.
- (f) *Hotel accommodation* – Revenues are recognized over time during the occupancy of hotel guest and ends when the scheduled hotel room accommodation has lapsed (i.e., the related room services have been rendered). As applicable, invoices for hotel accommodations are due upon receipt by the customer. This is presented under Revenue from Rendering of Services (see Note 23).
- (g) *Sales from Company-operated quick-service restaurants* – Revenues are recognized at point in time upon delivery to and receipt of consumer goods by the customer, and the Group has no obligation that could affect the customer's acceptance of the goods. Invoice for consumer goods transferred are due upon receipt by the customer.
- (h) *Franchise revenues* – Revenues from franchised McDonald's restaurants (including the restaurant operated by a joint venture) include royalty and management fees. These are recognized in the period earned. (See Note 23)

Revenue and expenses are recognized excluding the amount of value-added tax (VAT).

As applicable, when 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. Also, if applicable, the Group recognizes a right of refund asset on goods to be recovered from customers with a corresponding adjustment to Cost of Goods Sold account. However, there were no contracts that contain significant right of return arrangements that remain outstanding as of the end of the reporting periods.

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 [see Note 2.5(c)].

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.

If a transaction does not yet qualify as contract revenue under PFRS 15, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of revenue on real estate sale, consideration received from buyers are presented as customers' deposits under Other Liabilities account the consolidated statement of financial position.

The Group provides a membership card for its gaming patrons (i.e., of Travellers). Members earn points on gaming activity and such points are redeemable for complimentary goods and services such as room accommodations, food, beverages and others. Members may also earn special coupons or awards as determined during marketing promotions. The Group records revenue for the original transaction and a provision (and a corresponding recognition of promotional allowances in profit or loss) for the value of the points earned by members by reference to the relative fair values of the complimentary goods or services.

Cost and expenses (other than cost of real estate sales) are recognized in profit or loss upon utilization of the services or receipt of the goods or at the date they are incurred (see Notes 24 and 25). Incremental costs of obtaining a contract to sell a real estate property to a customer are recognized as an asset and are subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized. Incremental costs in obtaining other customer contracts are expensed as incurred since amortization period of these costs, if capitalized, would be less than one year (a practical expedient in PFRS 15).

All finance costs are reported in profit or loss on an accrual basis (see Note 26), except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.17).

Gaming revenue is recognized from net wins (losses) from gaming activities which represent the difference between coins and currencies deposited into the gaming machines or operations and the payments to customers, and for other games, the difference between gaming wins and losses, less sales incentives and other adjustments (i.e., promotional allowances) (see Note 23). The payout for wagers placed on gaming activities typically is known at the time the wager is placed (i.e., fixed odds wagering). These gaming transactions are accounted for as derivative transactions in accordance with PFRS 9 (previously PAS 39) (see Note 2.4). Gaming revenues from these transactions are recognized at fair value, which represents the price that would be received to sell a wager position or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Promotional allowances include rebates under the casino rebates program and the provision for the value of the gaming points earned by members, i.e. in using a membership card provided by the Group, by reference to the relative fair values of the complimentary goods or services. Promotional allowances are presented as a reduction of gaming revenues.

The Group also administers games in which the Group receives a fee rather than the Group being at risk to win or lose based on the outcome of the game, i.e. tournaments including card games and bingo operations. Revenues from these gaming-related activities, which are accounted in accordance with PFRS 15, are recognized over time as the services for administering the games are rendered, at an amount equivalent to the fee collected.

### **2.17 Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred (see Note 26), except to the extent that they are capitalized (see Notes 2.6, 2.7 and 2.9). 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 the cost of such asset.

The capitalization of borrowing costs commences when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

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

### **2.18 Leases**

The Group accounts for its leases as follows:

#### *(a) Group as Lessee*

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

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

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

(b) *Group as Lessor*

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

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

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

**2.19 Foreign Currency Transactions and Translation**

(a) *Transactions and Balances*

Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

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

The operating results and financial position of foreign subsidiaries (see Note 1) which are measured using the United States (U.S.) dollars, British pound sterling, European Union euro and Mexican peso, their functional currencies, are translated to Philippine pesos, the Parent Company's functional currency 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 profit or loss account are translated at the average exchange rates over the reporting period (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 dates of the transactions); and,
- (iii) All resulting exchange differences are recognized in other comprehensive income and in a separate component of equity under Accumulated Translation Adjustments account.

When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

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

## **2.20 Impairment of Non-Financial Assets**

The Group's Investments in associates and joint ventures [see Notes 2.2(b), 2.2(c) and 12], Intangible Assets (see Notes 2.12 and 15), Investment Property (see Notes 2.10 and 14), Property, Plant and Equipment (see Notes 2.9 and 13) and other non-financial assets (see Notes 2.8 and 9) are subject to impairment testing [see Note 3.2(i)]. 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 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 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 and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss. This reversal does not apply to intangible assets with indefinite useful lives and those assets not yet available for use.

## **2.21 Employee Benefits**

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan, and other employee benefits which are recognized as follows: (See Note 27)

### *(a) Post-employment 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 post-employment defined benefit pension plans cover all regular full-time employees. The respective pension plans are tax-qualified, noncontributory and administered by respective trustees of three significant subsidiaries.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds, 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. The interest rates are based from the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), in 2018; and by Philippine Dealing and Exchange Corp. (PDEX) in 2017. BVAL and PDEX provide 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 consolidated statement of financial position with a charge or credit recognized in consolidated other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance and Other Income or Finance Costs and Other Charges account in the consolidated statement of comprehensive income.

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

*(b) Post-employment Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). 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 when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Share-based Employee Remuneration*

The Group grants share options to key executive officers and employees eligible under each share option plan of the Parent Company, Megaworld, GERI, EMP and Travellers. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in profit or loss and the corresponding share option is recorded in the equity section of the consolidated statement of financial position.

Expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number that ultimately vested on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as APIC, and the cost of the share option under Share Options account is reclassified to APIC.

(e) *Bonus Plans*

The Group recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the Group's profits 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.

(f) *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.

## **2.22 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any (see Note 28).

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



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

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

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

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

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

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

### ***2.23 Earnings per Share***

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period (see Note 22).

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares [e.g., vested share options (see Note 21.6)].

### ***2.24 Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Strategic Steering Committee (SSC), its chief operating decision-maker. The SSC is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally considers the Group's major subsidiaries, as disclosed in Note 4, which represent the main products and services provided by the Group and the line of business in which the Group operates.

Each of these operating segments, which represents the major subsidiaries within the Group, is managed separately by each respective officers and management. All inter-segment 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. However, 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.

### ***2.25 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 (see Note 29).

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 Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Group and close members of the family of any such individual; and, (d) certain funded retirement plans, administered by trustee banks, of four significant subsidiaries.

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

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

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements. There are no post-year-end events that occurred up to date of issuance of the financial statements that would require disclosure or adjustment.

## **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 the 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, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*(a) Evaluating the Timing of Satisfaction of Performance Obligations*

*(i) Real Estate Sales*

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

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

The Group determined that its performance obligation is satisfied over time since it does not have an alternative use of the specific property sold as it is precluded by its contract from redirecting the use of the property for a different purpose. Further, the Group has rights over payment for development completed to date as the Group can choose to complete the development and enforce its rights to full payment under its contracts even if the customer defaults on amortization payments.

*(ii) Sales of consumer goods*

The Group determines that revenue is recognized at a point in time when the control of the goods has passed to the customer, i.e. generally when the customer acknowledged delivery of goods.

*(iii) Hotel Accommodations*

The Group determines that its revenue from hotel accommodations 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 entities. This demonstrates that the customers simultaneously receive and consume the benefits of the Group's rendering of hotel services as it performs.

(iv) *Food and Beverages, and Others*

In determining the appropriate method to use in recognizing the Group's revenues from food, beverage and other consumer goods, the Group determines that revenue is recognized at a point in time when the control of the goods has passed to the customer, i.e. generally when the customer acknowledged delivery of goods. The service component of the restaurant operations is deemed as an insignificant cause on the timing of satisfaction of performance obligation since it is only passage of time until the customer receives and consumes all the benefits after delivery of the food and beverage items.

(b) *Recognizing Revenue for Real Estate Activities*

The Group uses judgment in evaluating the probability of collection of contract price on real estate sales as a criterion for revenue recognition. The Group uses historical payment pattern of customers in establishing a percentage of collection threshold over which the Group determines that collection of total contract price is reasonably assured. In 2018, the Group reassessed the historical behavior of its customers and determined a new percentage of collection threshold in recognizing revenue, which resulted in an increase of P13.2 billion in revenues and corresponding cost of real property sold of P6.6 billion in 2018.

(c) *Determining the Accounting Treatment of Gaming Revenues under PFRS 9 (or PAS 39) and PFRS 15 (or PAS 18)*

The Group exercises judgment in determining whether its gaming transactions and gaming-related activities are within the scope of PFRS 9 (or PAS 39) or PFRS 15 (or PAS 18). In making this judgment, management considers whether both the Group and the patrons have the chance to win or lose money or other items of economic value based on the outcome of the game; or, only the patron has the chance to win or lose money or other items of economic value, with the Group only receiving a fee for administering the game, rather than the Group being at risk to win or lose based on the outcome of the game. When the Group takes a position against a patron, the resulting unsettled wager or position is a financial instrument that would likely meet the definition of derivative financial instrument and is accounted for under PFRS 9 (PAS 39).

Relative to this, the management has determined that its gaming revenues from table games and slot machines are within the scope of PFRS 9 (PAS 39) while gaming-related revenues from administering bingo and tournament games are within the scope of PFRS 15 (PAS 18).

(d) *Evaluating the Business Model and Cash Flow Characteristics of Financial Assets*

Upon adoption of PFRS 9 beginning January 1, 2018, the Group applies the business model test and cash flow characteristics test at a portfolio of financial assets (i.e., group of financial instruments that are managed together to achieve a particular objective) and not on an instrument-by-instrument approach (i.e., not based on intention for each or specific characteristic of individual instrument) as these relate to the Group's investment and trading strategies.

The business model assessment is performed on the basis of reasonably expected scenarios (and not on reasonably expected not to occur, such as the so-called 'worst case' or 'stress case', scenarios). A business model for managing financial assets is typically observable through the activities that the Group undertakes to achieve the objective of the business model.

The Group uses judgment when it assesses its business model for managing financial assets and that assessment is not determined by a single factor or activity. Instead, the Group considers all relevant evidence that is available at the date of assessment which includes, but not limited to:

- How the performance of the business model and the financial assets held within the business model are evaluated and reported to key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and,
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

(e) *Determining the ECL on Trade and Other Receivables and Advances to Related Parties*

Beginning January 1, 2018, the Group applies the ECL methodology which requires certain judgments in selecting the appropriate method of determination. In measuring ECL, the Group considers a broad range of information which include past events, current conditions, and reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets. The Group uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating). The provision matrix is based on historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables are disclosed in Notes 2.4(d) and 31.2.

For advances to related parties, the management determined that the use of liquidity analysis model is applicable in the ECL assessment. In the case of these receivables from 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 Company's receivables if demanded at the reporting date taking into consideration the historical defaults of the related parties.

Details about the ECL on the Company's financial asset at amortized cost are disclosed in Note 31.2.

(f) *Assessing Impairment of AFS Financial Assets (2017)*

The determination when an investment is other-than-temporarily impaired required significant judgment. In making this judgment, the Group evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. [See Notes 2.4(e)(iii)]

Based on evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets were not impaired in 2017 and 2016.

(g) *Distinguishing Investment Properties, Owner-Occupied Properties and Real Estate Inventories*

The Group determines whether a property qualifies as an investment property (see Note 2.10) or owner-occupied properties or inventories. The Group applies judgment upon initial recognition of the asset based on the intention and also when there is a change in use. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Investment property comprise of properties held to earn rental or for capital appreciation. Owner-occupied properties (see Note 2.9) generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process while Inventories (see Note 2.7) are properties that are held for sale in the ordinary course of business. The Group considers each property separately in making its judgment.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the Group's main line of business or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the Group's main line of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(h) *Distinguishing Investments in Financial Instruments and Golf and Resort Shares Inventories*

In determining whether golf and resort shares shall be accounted for as either inventories or financial instruments, the Group considers its role in the development of the club and its intent for holding these shares. The Group classifies such shares as inventories when the Group acts as the developer and it intends to sell a developed property together with the club share.

(i) *Classifying Perpetual Debt Securities*

The Group exercises judgment in classifying its perpetual debt securities as financial liabilities or equity instruments. In making its judgment, the Group considers the terms of the securities including any restrictions on the Group's ability to defer interest payments. Based on management's assessment, the perpetual debt securities are classified as equity securities and presented as part of NCI, as the Group has the ability to defer payments of principal and interest indefinitely (see Note 28.7).

(j) *Determining Control, Joint Control or Significant Influence*

Judgment is exercised in determining whether the Group has control, joint control or significant influence over an entity. In assessing each interest over an entity, the Group considers voting rights, representation on the board of directors or equivalent governing body of the investee, interlocking directors, participation in policy-making process and all other facts and circumstances, including terms of any contractual arrangement.

(k) *Distinguishing Asset Acquisition and Business Combinations*

At the time of acquisition, the Group determines whether the acquisition represents the acquisition of a business or of assets (see Notes 1.2 and 2.11). The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., for Megaworld, maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40, *Investment Property*, on ancillary services.

In 2018 and 2017, the Group gained control over various entities and a business unit as described in Note 1.2 which, based on management's assessment, are accounted for as business combinations. Also in 2016, the Group acquired brands and assets as described in Note 1.2(d) which, based on management's assessment, are accounted for as asset acquisitions since it does not include an integrated set of activities that are capable of being managed.

(l) *Distinguishing Operating and Finance Leases*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a 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 the Group's assessment, the Group's lease agreements are classified as operating leases.



*(m) Classifying Preferred Shares as Financial Liability*

The Group determines the classification of preferred shares based on the substance of the contractual agreement and the characteristics of a financial liability or an equity instrument. Based on the management's assessment, the preferred shares are considered as financial liabilities, as they are redeemable at the option of the holder and the Group does not have the ability to defer payments of the principal and interest (see Notes 2.13 and 19).

*(n) Recognizing the Recoverability of Insurance Claims*

The Group recognized insurance recoveries related to business interruption in 2018; and, actual losses incurred for damaged capital assets and other casualty losses in 2017 arising from the arson and robbery incident in June 2017 (see Note 30.9). Critical judgment was exercised by management to evaluate the recoverability of said claims as highly probable and virtually certain, on a per insurance coverage basis. As of December 31, 2017, the whole amount of recoverable claims including the portion received in 2018 was not accrued in full pending its finalization with the insurance company. The amount recovered for business interruption in 2018 is presented as part of Finance and Other Income account in the 2018 consolidated statement of comprehensive income, while the amount accrued as insurance claims receivable as of December 31, 2017 is presented as part of Trade and Other Receivables account in the 2017 consolidated statement of financial position, which was collected in 2018 (see Notes 6 and 26).

*(o) Recognizing Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.14 and disclosures on relevant provisions and contingencies are presented in Note 30.

**3.2 Key Sources of Estimation Uncertainty**

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

*(a) Revenue Recognition for Performance Obligation Satisfied Over Time*

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

(b) *Impairment of Financial Assets at Amortized Cost*

In measuring allowance for ECL, the Group added significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses), as further detailed in Note 2.4(d). In 2017 and 2016, the Group evaluated impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, the counterparties' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

(c) *Valuation of Inventories*

In determining the net realizable values of inventories (see Notes 2.6 and 2.7), management takes into account the most reliable evidence available at the dates the estimates are made. Net realizable value is one of the key variables used in analyzing possible impairment. The Group's core business is subject to changes in market factors that directly affect the demand for inventories and real estate properties such as purchasing power of consumers, degree of competition, and other market-related factors. Future realization of the carrying amounts of these assets is also affected by price changes in the costs incurred necessary to produce the inventories and make a sale as well as market trends. Changes in the sources of estimation may cause significant adjustments to the Group's inventories and real estate properties within the next financial reporting period.

The amounts of allowance for inventory obsolescence provided by management are based on, among others, age and status of inventories and the Group's past experience. The net realizable value of inventories and an analysis of allowance for inventory write-down are presented in Note 8.

Considering the Group's pricing policy, the net realizable values of certain real estate properties are higher than their related costs.

(d) *Fair Value Measurement of Financial Assets*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets would affect profit and loss and other comprehensive income.

Management estimates the fair value of financial instruments where active market quotes are not available 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 reporting date. (See Note 2.4)

The carrying amounts of financial assets at FVTPL and at FVOCI are disclosed in Notes 7 and 11, respectively. [See Notes 2.4(a)(ii)(iii) and 2.4(c)(i)(iii)]

(e) *Fair Value Measurement of Investment Properties*

Investment properties are measured using the cost model (see Note 2.10). The fair value disclosed in Note 14 to the consolidated financial statements was estimated either by: (i) using the fair value of similar properties in the same location and condition; or, (ii) using the discounted cash flows valuation technique since the information on current or recent prices of certain investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

The Group determines the fair value of idle properties 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.

A significant change in these elements may affect prices and the value of the assets. As of December 31, 2018 and 2017, the Group determined that there were no significant circumstances that may affect the fair value measurement of these properties. The fair value of the investment properties is disclosed in Notes 14 and 33.4.

(f) *Fair Value Estimation of Share Options*

The fair value of the Options recognized as part of Salaries and employee benefits is shown under Other Operating Expenses account in the consolidated statement of comprehensive income (see Note 25). A corresponding credit to Share Options Outstanding for options related to the Group is presented in the equity portion of the consolidated statement of financial position (see Note 21.6).

The Group estimates the fair value of the Executive Share Option (the Options) by applying an option valuation model, considering the terms and conditions on which the Options were granted. The estimates and assumptions used are presented in Note 21.6 which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the share price (i.e., the Parent Company, Megaworld, GERI, TRAV and EMP) and fair value of the specific common shares. Changes in these factors can affect the fair value of share options at grant date.

(g) *Fair Value Measurement of Derivative Financial Instruments*

Fair value measurement for gaming revenues under PFRS 9 (previously under PAS 39) represents the price that would be received to sell a wager position or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date, less any promotional allowances and other similar adjustments.

For other derivative financial instrument, management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. The determination of the fair value of derivatives is dependent on the selection of certain assumptions used by third party experts in calculating such amounts. Those assumptions include, among others, expected movements in the index cumulative performance as defined in the swap agreement. Changes in assumptions could affect reported fair value of financial instruments. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

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

The Group estimates the useful lives of property, plant and equipment (see Note 2.9), investment property (see Note 2.10) and intangible assets (see Note 2.12) with finite lives based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Specific trademarks mentioned in Note 15 were assessed to have indefinite useful lives considering that there is no foreseeable limit to the period over which such trademarks are expected to generate cash inflows for the Group (i.e., trademarks for The Dalmore and Jura have been in existence for more than 100 years). Moreover, there are no legal or similar limits imposed on the period over which the Group has control or can use the said trademarks.

The carrying amounts of property, plant and equipment, investment property and intangible assets are presented in Notes 13, 14 and 15, respectively. Actual results, however, may vary due to changes in factors mentioned above.

Based on management assessment, no change in the estimated useful lives of property, plant and equipment, investment property and intangible assets is necessary in 2018 and 2017.

(i) *Impairment of Non-Financial Assets*

Goodwill and specific intangible assets with indefinite life are reviewed annually for impairment. An impairment review on all other non-financial assets is performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.20. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment loss recognized on Property, Plant and Equipment is discussed in Note 13. There is no impairment loss recognized on the Group's investment properties, goodwill, trademarks and other intangible assets and other non-financial assets based on management's evaluation for the years ended December 31, 2018, 2017 and 2016.

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. An analysis of the realized and unrealized deferred tax assets is presented in Note 28.1.

(k) *Valuation of Post-Employment Defined Benefit Obligation*

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 27.2.

(l) *Measurement of Gaming Points and Estimation of Liability for Unredeemed Gaming Points*

The Group provides gaming points to its patrons based on gaming activity. Gaming points are redeemable in a wide selection of redemption categories. The Group recognizes the fair values of gaming points, based on redemption terms, historical redemption pattern of patrons and the fair value of promotional activities per source (i.e., hotel, food and beverage, and others). The Group reassesses the measurement basis used for calculating the fair value of gaming points on a regular basis. The carrying value of the gaming points accrued by the Group is presented as Unredeemed gaming points under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

(m) *Recognition of Financial Liability and Equity Components of Compound Financial Instruments*

The ELS instrument (see Note 20) contains both a financial liability, which is the Group's contractual obligation to pay cash, and an equity component, which is the holder's option to convert it into an equity instrument of the issuer. The equity component is assigned the residual value after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as own credit risk, volatilities and correlations require management to make estimates. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

Initially, the Group determined the carrying amount of the financial liability component by measuring the present value of the contractual stream of future cash flows, using the interest rate of similar liabilities that do not have an associated equity component. When the fair value of the financial liability is compared with the fair value of the compound financial instrument as a whole, which is equivalent to the issue price, there was no residual amount such that no value was assigned to the equity component; hence, no equity component was recognized in the consolidated financial statements at that time. Subsequently, the financial liability was measured at amortized cost. The total carrying amount of the ELS was presented as part of Other Non-current Liabilities account in the 2016 consolidated statement of financial position.

In 2017, as a result of the amendments on the ELS, management reassessed the compound instrument and recomputed the fair values of the components at the time of amendment, which resulted in a revalued financial liability component and an equity component with value. Accordingly, the Group presented the components separately as Equity-linked debt securities under Other Non-current Liabilities account (see Note 20) and as part of Non-controlling Interest accounts under Equity section, respectively, in the 2018 and 2017 consolidated statement of financial position.

(n) *Provision for Restoration of Leased Property*

Property, plant and equipment includes the estimated cost of dismantling and restoring leased properties (building and leasehold improvements) to their original condition for which the Group is liable (see Note 2.9). The estimated cost was initially based on a recent cost to dismantle facilities. This was adjusted to consider estimated incremental annual cost up to the end of the lease term. The estimated dismantling cost was discounted using the prevailing market rate at the inception of the lease for an instrument with maturity similar to the term of the lease.

The carrying amount of ARO and provision for dilapidation are presented as part of Other Non-Current Liabilities account in the consolidated statement of financial position (see Note 20).

(o) *Provision for Onerous Lease*

The Group determines the provision for leasehold properties which are no longer used in the business for which the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease using discounted cash flows and assumptions relating to future sublet income expectations. A significant change in the credit-adjusted risk-free rate used in discounting the estimated cost and sublease assumptions would result in a significant change in the amount of provision recognized with a corresponding effect on profit or loss.

The carrying amount of provision for onerous lease is presented as part of Other Non-Current Liabilities account in the consolidated statement of financial position (see Note 20).

(p) *Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in consolidated profit or loss in the subsequent period. (See Note 2.11)

#### 4. SEGMENT INFORMATION

##### 4.1 *Business Segments*

The Group is organized into major business segments, which are the major subsidiaries of the Group. These represent the main products and services provided by the Group and the line of business in which the Group operates (see Note 2.24). Presented below is the basis of the Group in reporting its primary segment information.

- (a) The *Megaworld* segment consists of development of real estate, integrated resorts, leasing of properties and hotel operations business which is primarily undertaken by Megaworld Corporation and subsidiaries, the Group's forerunner in the real estate industry.
- (b) The *Emperador* segment refers to the manufacture and distribution of distilled spirits, including the production of glass containers, which is undertaken by Emperador Inc. and subsidiaries.
- (c) The *Travellers* segment relates to tourism-oriented business that integrates entertainment, hospitality and leisure, including gaming, as that of Resorts World Manila, which is operated by Travellers International Hotel Group, Inc. and subsidiaries.
- (d) The *GADC* segment refers to operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement between GADC and McDonald's Corporation, USA.

The Group disaggregates revenues recognized from contracts with customers into these segments that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This same disaggregation is used in earnings releases, annual reports and investor presentations.



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

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash and cash equivalents, trade and other receivables, contract assets, inventories, property, plant and equipment, intangible assets and investment properties. Segment liabilities include all operating liabilities and consist principally of trade and other payables, contract liability, interest-bearing loans and bonds payable.

#### ***4.3 Intersegment Transactions***

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

#### 4.4 Analysis of Segment Information

Segment information can be analyzed as follows for the years ended December 31, 2018, 2017 and 2016:

	2018				
	<u>Megaworld</u>	<u>Travellers</u>	<u>GADC</u>	<u>Emperador</u>	<u>Total</u>
<b>REVENUES</b>					
Sales to external customers	P 54,881,328,733	P 20,532,703,973	P 28,415,529,909	P 46,358,326,003	P 150,187,888,618
Intersegment sales	532,091,812	109,819,621	-	-	641,911,433
Finance and other income	<u>2,024,564,835</u>	<u>1,879,662,536</u>	<u>204,209,303</u>	<u>679,322,390</u>	<u>4,787,759,064</u>
Segment revenues	57,437,985,380	22,522,186,130	28,619,739,212	47,037,648,393	155,617,559,115
Cost of sales and expenses excluding depreciation and amortization	( <u>30,130,763,120</u> )	( <u>18,213,082,209</u> )	( <u>24,823,471,642</u> )	( <u>36,671,149,630</u> )	( <u>109,838,466,601</u> )
	27,307,222,260	4,309,103,921	3,796,267,570	10,366,498,763	45,779,092,514
Depreciation and amortization	( 2,268,838,880 )	( 2,289,286,602 )	( 1,191,150,982 )	( 1,076,907,317 )	( 6,826,183,781 )
Finance cost and other charges	( <u>3,261,109,497</u> )	( <u>404,826,256</u> )	( <u>109,105,809</u> )	( <u>818,680,240</u> )	( <u>4,593,721,802</u> )
Profit before tax	21,777,273,883	1,614,991,063	2,496,010,779	8,470,911,206	34,359,186,931
Tax expense	( <u>5,544,362,408</u> )	( <u>144,909,807</u> )	( <u>758,056,178</u> )	( <u>1,607,414,678</u> )	( <u>8,054,743,071</u> )
<b>SEGMENT PROFIT</b>	<b><u>P 16,232,911,475</u></b>	<b><u>P 1,470,081,256</u></b>	<b><u>P 1,737,954,601</u></b>	<b><u>P 6,863,496,528</u></b>	<b><u>P 26,304,443,860</u></b>
<b>SEGMENT ASSETS AND LIABILITIES</b>					
Segment assets	P 322,191,472,006	P 104,709,932,153	P 19,580,530,142	P 114,542,338,652	P 561,024,272,953
Segment liabilities	123,368,102,367	58,410,773,061	11,656,147,656	54,404,692,853	247,839,715,937
<b>OTHER SEGMENT INFORMATION</b>					
Share in net profit (loss) of associates and joint ventures	92,307,592	( 39,263 )	-	198,909,795	291,178,124

	2017 [As Restated – see Note 2.1(c)]				
	<u>Megaworld</u>	<u>Travellers</u>	<u>GADC</u>	<u>Emperador</u>	<u>Total</u>
<b>REVENUES</b>					
Sales to external customers	P 48,125,351,966	P 18,578,784,045	P 25,651,627,320	P 42,257,796,854	P 134,613,560,185
Intersegment sales	173,133,657	50,277,686	-	-	223,411,343
Finance and other income	<u>1,815,055,331</u>	<u>172,363,323</u>	<u>255,129,148</u>	<u>411,549,414</u>	<u>2,654,097,216</u>
Segment revenues	50,113,540,954	18,801,425,054	25,906,756,468	42,669,346,268	137,491,068,744
Cost of sales and expenses excluding depreciation and amortization	( <u>26,696,161,016</u> )	( <u>15,076,261,599</u> )	( <u>22,079,908,123</u> )	( <u>32,526,530,752</u> )	( <u>96,378,861,490</u> )
	23,417,379,938	3,725,163,455	3,826,848,345	10,142,815,516	41,112,207,254
Depreciation and amortization	( 1,830,763,458)	( 1,931,946,081)	( 1,160,186,016)	( 802,101,313)	( 5,724,996,868)
Finance cost and other charges	( <u>2,234,699,822</u> )	( <u>1,274,812,002</u> )	( <u>172,099,662</u> )	( <u>1,453,905,412</u> )	( <u>5,135,516,898</u> )
Profit before tax	19,351,916,658	518,405,372	2,494,562,667	7,886,808,791	30,251,693,488
Tax expense	( <u>4,063,450,162</u> )	( <u>218,395,439</u> )	( <u>754,517,341</u> )	( <u>1,503,052,461</u> )	( <u>6,539,415,403</u> )
<b>SEGMENT PROFIT</b>	<u>P 15,288,466,496</u>	<u>P 300,009,933</u>	<u>P 1,740,045,326</u>	<u>P 6,383,756,330</u>	<u>P 23,712,278,085</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>					
Segment assets	P 287,672,861,780	P 84,365,114,201	P 17,013,884,251	P 110,654,016,965	P 499,705,877,197
Segment liabilities	113,688,842,332	42,151,627,670	10,242,056,765	51,114,592,291	217,197,119,058
<b>OTHER SEGMENT INFORMATION</b>					
Share in net profit (loss) of associates and joint ventures	118,829,303	( 232,813 )	-	154,101,850	272,698,340

	2016 [As Restated – see Note 2.1(c)]				
	<u>Megaworld</u>	<u>Travellers</u>	<u>GADC</u>	<u>Emperador</u>	<u>Total</u>
<b>REVENUES</b>					
Sales to external customers	P 42,405,881,471	P 23,183,549,360	P 22,716,009,343	P 40,470,950,595	P 128,776,390,769
Intersegment sales	129,197,283	58,136,406	-	22,485,362	209,819,051
Finance and other income	<u>1,743,328,172</u>	<u>85,896,223</u>	<u>95,417,789</u>	<u>444,501,068</u>	<u>2,369,143,252</u>
Segment revenues	44,278,406,926	23,327,581,989	22,811,427,132	40,937,937,025	131,355,353,072
Cost of sales and expenses excluding depreciation and amortization	( <u>24,253,398,032</u> )	( <u>16,712,937,562</u> )	( <u>19,714,018,727</u> )	( <u>30,053,548,917</u> )	( <u>90,733,903,238</u> )
	20,025,008,894	6,614,644,427	3,097,408,405	10,884,388,108	40,621,449,834
Depreciation and amortization	( 1,486,971,728 )	( 1,643,106,203 )	( 1,102,983,228 )	( 708,238,131 )	( 4,941,299,290 )
Finance cost and other charges	( <u>3,216,929,009</u> )	( <u>1,458,618,238</u> )	( <u>231,718,113</u> )	( <u>713,874,962</u> )	( <u>5,621,140,322</u> )
Profit before tax	15,321,108,157	3,512,919,986	1,762,707,064	9,462,275,015	30,059,010,222
Tax expense	( <u>3,496,722,179</u> )	( <u>64,314,408</u> )	( <u>529,208,455</u> )	( <u>1,742,331,316</u> )	( <u>5,832,576,358</u> )
<b>SEGMENT PROFIT</b>	<b><u>P 11,824,385,978</u></b>	<b><u>P 3,448,605,578</u></b>	<b><u>P 1,233,498,609</u></b>	<b><u>P 7,719,943,699</u></b>	<b><u>P 24,226,433,864</u></b>
<b>SEGMENT ASSETS AND LIABILITIES</b>					
Segment assets	P 253,466,443,711	P 73,934,705,268	P 15,617,095,043	P 93,657,270,308	P 436,675,514,330
Segment liabilities	93,789,741,231	31,670,179,894	10,220,260,865	40,626,020,465	176,306,202,455
<b>OTHER SEGMENT INFORMATION</b>					
Share in net profit (loss) of associates and joint ventures	136,866,743	( 538,345 )	-	219,276,919	355,605,317

#### 4.5 Reconciliations

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

	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
<b>Revenues</b>			
Total segment revenues	P 155,617,559,115	P 137,491,068,744	P 131,355,353,072
Unallocated corporate revenue	1,809,658,261	1,520,964,571	1,748,842,604
Elimination of intersegment revenues	( 641,911,433 )	( 223,411,343 )	( 209,819,051 )
Revenues as reported in consolidated profit or loss	<u>P 156,785,305,943</u>	<u>P 138,788,621,972</u>	<u>P 132,894,376,625</u>
<b>Profit or loss</b>			
Segment operating profit	P 26,304,443,860	P 23,712,278,085	P 24,226,433,864
Unallocated corporate loss	( 1,986,654,038 )	( 1,212,898,155 )	( 1,070,074,614 )
Elimination of intersegment revenues	( 641,911,433 )	( 223,411,343 )	( 209,819,051 )
Profit as reported in consolidated profit or loss	<u>P 23,675,878,389</u>	<u>P 22,275,968,587</u>	<u>P 22,946,540,199</u>
<b>Assets</b>			
Segment assets	P 561,024,272,953	P 499,705,877,197	P 436,675,514,330
Unallocated corporate assets	<u>27,226,921,775</u>	<u>35,906,274,250</u>	<u>25,255,117,630</u>
Total assets reported in the consolidated statements of financial position	<u>P 588,251,194,728</u>	<u>P 535,612,151,447</u>	<u>P 461,930,631,960</u>
<b>Liabilities</b>			
Segment liabilities	P 247,839,715,937	P 217,197,119,058	P 176,306,202,455
Unallocated corporate liabilities	<u>49,838,815,332</u>	<u>44,141,950,528</u>	<u>37,539,123,033</u>
Total liabilities reported in the consolidated statements of financial position	<u>P 297,678,531,269</u>	<u>P 261,339,069,586</u>	<u>P 213,845,325,488</u>

Concentration of revenue is considered when at least 10% of total segment revenue is generated from a single customer. There is no concentration of the Group's revenue in a single customer as the 10% threshold has not been met in any of the years presented.

#### 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]
Cash on hand and in banks	P 24,302,215,975	P 22,493,526,840
Short-term placements	<u>20,476,795,558</u>	<u>30,290,873,322</u>
	<u>P 44,779,011,533</u>	<u>P 52,784,400,162</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates [see Notes 26 and 31.1(b)].

Short-term placements are made for varying periods up to 90 days and earn effective interest per annum ranging from 1.0% to 7.0% in 2018, 0.5% to 3.5% in 2017, and 0.6% to 2.5% in 2016.

The Group has Restricted short-term placements and Time deposits, which are shown under Other Current Assets account in the consolidated statements of financial position (see Note 9).

Interest income from Cash and Cash Equivalents for the years ended December 31, 2018, 2017 and 2016 is presented under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

## 6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

	Notes	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]
Current:			
Trade receivables	17(n,v), 23.2 29.2	<b>P 45,798,321,365</b>	P 36,721,560,615
Advances to contractors and suppliers	2.4	<b>12,205,310,741</b>	9,479,405,564
Note receivable	2.4	<b>216,692,321</b>	-
Due from related parties	29.5	<b>337,616,458</b>	249,464,102
Accrued interest receivable		<b>147,717,381</b>	55,284,785
Claims receivables	3.1(n), 30.9	-	762,551,480
Others	30.4	<b>3,193,129,542</b>	<u>2,103,822,009</u>
		<b>61,898,787,808</b>	49,372,088,555
Allowance for impairment	3.2(e), 25 29.5	<b>( 1,380,069,435 )</b>	<b>( 884,705,546 )</b>
		<b><u>60,518,718,373</u></b>	<u>48,487,383,009</u>
Non-current:			
Trade receivables	23.2, 29.2	<b>4,349,378,898</b>	8,976,202,656
Advances to contractors and suppliers	2.4	<b>8,445,805,031</b>	8,129,485,572
Loans receivable		<b>110,869,565</b>	145,289,857
Note receivable		<b>54,173,080</b>	-
Receivable from employees		<b>36,664,154</b>	44,538,520
Others		<b>-</b>	<u>82,326,077</u>
		<b>12,996,890,728</b>	17,377,842,682
Allowance for impairment	3.2(e), 25	<b>( 12,224,936 )</b>	<b>( 12,224,936 )</b>
		<b><u>12,984,665,792</u></b>	<u>17,365,617,746</u>
		<b><u>P 73,503,384,165</u></b>	<u>P 65,853,000,755</u>

Trade receivables are non-interest bearing. Most trade receivables, particularly those relating to real estate sales, are covered by post-dated checks. As at December 31, 2018 and 2017, the Group has outstanding receivables assigned to local banks amounting to P889.3 million and P1,044.8 million, respectively [see Note 17(n and v)].

The installment period of real estate sales contracts averages from one to five years. Non-interest bearing trade receivables with maturity of more than one year after the end of the reporting period are remeasured at amortized cost using the effective interest rate of similar financial instruments. Interest income recognized amounted to P1.0 billion, P1.4 billion and P1.3 billion in 2018, 2017 and 2016, respectively. These amounts are presented as Interest income under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

Advances to contractors and suppliers pertain to noninterest-bearing and unsecured advances or downpayments to the Group's contractors and suppliers as initial payment or mobilization funds for services to be rendered and goods to be delivered to the Group. These are reduced proportionately upon receipt of progress billings from said suppliers. The current portion pertains to inventories while the non-current advances pertain to the construction of property, plant and equipment and investment property.

Note receivable pertains to a two-year unsecured interest-bearing advances granted by the Group in December 2018 to a certain third party. The note bears 5% interest starting January 1, 2019.

Claims receivables pertain to expected minimum insurance and recoveries from losses arising from property damages and other casualty losses [see Notes 3.1(n) and 30.9]. This has been fully collected in 2018.

Receivable from employees and due from related parties pertain to noninterest-bearing, unsecured and immediately demandable advances, settlement of which is generally made in cash, or through deduction from employees' salary or employees' liquidation of business related expenses (see Note 29.5).

Other current receivables include receivable from sale of land and loan receivable.

All of the Group's trade and other receivables have been assessed for indications of impairment using the ECL model required under PFRS 9 [see Note 2.4(d)]. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized. Certain past due accounts from real estate sales are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer as the titles to the real estate properties remain with the Group until the receivables are fully collected, hence there is no loss given default in case of non-payment (see Note 31.2).



A reconciliation of the allowance for impairment at the beginning and end of the reporting periods is shown below.

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year		<b>P 896,930,482</b>	P 762,954,888
Effect of adoption of PFRS 9 As restated	2.3(a)(iii)	<u>332,421,578</u>	<u>-</u>
		<b>1,229,352,060</b>	762,954,888
Impairment losses during the year	25, 29.5	<b>169,501,339</b>	145,518,483
Reversal of impairment previously recognized	26	<b>( 6,559,028)</b>	( 7,553,903)
Write-off of trade receivables previously provided with allowance		<u>-</u>	<u>( 3,988,986)</u>
Balance at end of year		<b><u>P 1,392,294,371</u></b>	<b><u>P 896,930,482</u></b>

Impairment losses are presented under Other Operating Expenses account (see Note 25), while the gain on reversal is presented as part of Miscellaneous under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

All trade receivables are subject to credit risk exposure (see Note 31.2). However, the Group does not identify specific concentrations of credit risk with regard to trade and other receivables as the amounts recognized consist of a large number of receivables from various customers.

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of local and foreign investments, held for trading, as follows:

	<u>2018</u>	<u>2017</u>
Marketable debt securities	<b>P 9,994,421,546</b>	P 11,864,245,566
Quoted equity securities	<b>3,196,517,663</b>	1,632,656,186
Derivative financial assets	<u>426,485,938</u>	<u>19,572,259</u>
	<b><u>P 13,617,425,147</u></b>	<b><u>P 13,516,474,011</u></b>

Marketable debt securities, which bear interest ranging from 4.3% to 7.7%, 4.3% to 8.3% and 2.8% to 8.4% per annum as at December 31, 2018, 2017 and 2016, respectively, are measured at their fair values determined directly by reference to published prices quoted in an active market. The net changes in fair values of these financial assets are presented either as part of Fair value gains under Finance and Other Income account or Fair value losses under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest income amounting to P40.8 million, P80.6 million and P285.5 million for 2018, 2017 and 2016, respectively, is shown as part of Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

A portion of marketable debt securities placed with certain foreign banks is covered by a set-off provision. The loans set-off against marketable debt securities amounted to U.S.\$45.1 million (P2,248.8 million) as at December 31, 2016. The loans were settled in 2017. No instruments were set-off as at December 31, 2017 and 2018.

Derivative financial assets arise from foreign exchange margins trading spot and forward contracts entered into by the Group. As of December 31, 2018, the hedging instrument has a positive fair value of P426.5 million. The term of these forward contracts is usually one month to one year. Changes in foreign currency value arising from such investments are taken up in profit or loss and are recorded either as part of Fair value gains under Finance and Other Income account or Fair value losses under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

## 8. INVENTORIES

The details of inventories are shown below [see Notes 2.6, 3.1(d) and 3.2(c)].

	Notes	2018	2017 [As Restated – see Note 2.1(c)]
At cost –			
Real estate for sale		<b>P 82,060,440,050</b>	P 72,647,397,956
Property development costs		<b>8,157,949,491</b>	6,381,569,472
Raw land inventory		<b>8,459,347,672</b>	6,913,892,233
Golf and resort shares for sale		<b>2,243,707,288</b>	2,816,204,114
	17(n)	<b><u>100,921,444,501</u></b>	<u>88,759,063,775</u>
At net realizable value:			
Work-in-process goods		<b>19,310,965,391</b>	17,786,098,444
Finished goods		<b>4,996,540,420</b>	3,608,924,741
Raw materials		<b>3,261,111,478</b>	3,249,324,608
Food, supplies and other consumables		<b>3,138,423,500</b>	2,318,195,098
		<b><u>30,707,040,789</u></b>	<u>26,962,542,891</u>
Allowance for inventory write-down	2.6	<b>( <u>234,473,864</u> )</b>	( <u>174,836,786</u> )
	17(ee)	<b><u>30,472,566,925</u></b>	<u>26,787,706,105</u>
		<b><u>P 131,394,011,426</u></b>	<u>P 115,546,769,880</u>

Real estate for sale pertains to the accumulated costs incurred in developing residential houses, lots and condominium units for sale which refer to the Group's horizontal and condominium projects and certain integrated tourism projects. Total cost includes capitalized borrowing costs amounting to P2,305.3 million, P1,804.7 million and P1,540.4 million in 2018, 2017, and 2016, respectively (see Note 17). The amount capitalized was determined using a capitalization rate of 4.55%, 4.55% and 4.32% in 2018, 2017 and 2016, respectively. Certain real estate for sale are subject to negative pledge on certain loans obtained by the Group [see Note 17(n)].

Property development costs pertain to accumulated costs incurred for properties undergoing development. The relative cost of a unit sold under development is charged to cost of sales in the same manner as revenue is recognized. The relative costs of units completed prior to sale are reclassified to Real estate for sale.

Raw land inventory pertains to properties which the Group intends to develop into residential properties to be held for sale.

Work-in-process pertains mainly to substantial inventory of aged whisky stocks in Scotland which mature over periods of up to 60 years. These maturing whisky stock inventory amounted to P15,415.2 million and P13,501.2 million as of December 31, 2018 and 2017, respectively, which included capitalized depreciation costs (see Note 13).

Golf and resort shares for sale comprise of proprietary or membership shares (landowner resort shares and founders shares) that are of various types and costs. The cost of the landowner resort shares is based on the acquisition and development costs of the land and the project. The cost of the founders shares is based on the par value of the resort shares which is P100 per share.

Food, supplies and other consumables include paper and packaging, promotional materials, membership program items, operating supplies, spare parts, fuel and lubricants.

A reconciliation of the allowance for inventory write-down at the beginning and end of the reporting periods is shown below.

	<u>Notes</u>	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]
Balance at beginning of year		<b>P 174,836,786</b>	P 169,987,543
Additional losses during the year	24, 25	<b>59,637,078</b>	19,104,221
Reversals of write-down	26	<u>-</u>	( <u>14,254,978</u> )
Balance at end of year		<b><u>P 234,473,864</u></b>	<b><u>P 174,836,786</u></b>

The additional losses on inventories were recognized to reduce the carrying values of cased stocks, dry goods and supplies in 2018 and 2017. The additional losses on cased stocks and dry goods are shown as part of Other direct and overhead under Cost of Goods Sold account in the consolidated statements of comprehensive income (see Note 24). Further, additional losses on supplies are shown as Write-down of inventories under Other Operating Expenses accounts in the consolidated statements of comprehensive income (see Note 25). The reversals of write-down are shown as part of Miscellaneous under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

## 9. OTHER ASSETS

The composition of this account is shown below.

	Notes	2018	2017 [As Restated – see Note 2.1(c)]
Current:	2.8		
Input VAT		<b>P 7,800,311,920</b>	P 6,616,129,225
Restricted short-term placements	5	<b>3,151,747,018</b>	3,057,860,384
Prepayments		<b>2,776,862,790</b>	1,793,267,124
Creditable withholding taxes		<b>921,178,241</b>	679,983,433
Deferred commission	23.3	<b>841,421,867</b>	537,781,266
Refundable deposits		<b>192,940,895</b>	448,470,573
Time deposits	5	<b>118,551,065</b>	117,126,031
Office supplies		<b>88,126,757</b>	85,326,709
Others		<b>394,199,932</b>	473,293,580
		<b><u>16,285,340,485</u></b>	<u>13,809,238,325</u>
Non-current:	2.8		
Advances for future investment	30.3(a)	<b>2,144,665,176</b>	1,556,429,882
Refundable deposits		<b>1,753,002,493</b>	1,610,637,649
Property mortgage receivable		<b>650,178,519</b>	654,595,116
Deferred commission	23.3	<b>301,179,774</b>	305,749,301
Deferred input VAT		<b>166,540,481</b>	192,499,656
Claims for tax refund		<b>112,282,175</b>	112,282,175
Advance payments for assets acquisition		<b>359,199,665</b>	385,962,965
Others		<b>539,637,520</b>	593,782,034
		<b><u>6,026,685,803</u></b>	<u>5,411,938,778</u>
		<b><u>P 22,312,026,288</u></b>	<u>P 19,221,177,103</u>

Restricted short-term placements [see Note 30.3(a)] are made for varying periods ranging from 30 to 90 days in 2018 and 2017, and earn effective interests ranging from 4.0% to 4.1% per annum in 2018, 1.3% to 2.8% per annum in 2017 and 1.3% to 2.3% per annum in 2016 (see Note 26).

Time deposits pertain to placements with maturity of 360 days, which earn an effective interest of 1.5% in 2018 and 2017 and 1.4% in 2016.

Prepayments include prepaid taxes, insurance, rentals and advertising, which are expected to be realized in the next reporting period.

Advances for future investment pertain to the advances made by the Group to Philippine Amusement and Gaming Corporation (PAGCOR) starting 2014 in connection with the development of Site A [see Note 30.3(a)]. In 2018 and 2017, the Group made additional payments to PAGCOR amounting to P0.6 billion in each year to fulfill the future investment.

In 2016, the Group purchased from one of its property lessors an outstanding mortgage debt on one of the Group's leased properties. The purchased mortgage asset entitles the Group to full security over the leased property and to monthly interest payments from the property lessor. However, the Group remains as lessee over the property; hence, it is still required to make monthly lease payments to the property lessor until 2036.

In 2016, the Group made a deposit for a certain acquisition amounting to P449.3 million presented as part of Advance payments for asset acquisition which remains outstanding as of December 31, 2016. The said deposit was applied in full against the total considerations paid in 2017 (see Note 1.2). Remaining portion as of December 31, 2018 pertain to advance payment for the purchase of machinery and equipment.

Current others include payroll funds and food and beverage inventories while non-current others include prepaid rentals and non-financial deposits.

## 10. ADVANCES TO/FROM LANDOWNERS AND JOINT VENTURES

### *10.1 Advances to Landowners and Joint Ventures*

The Group enters into numerous joint operation agreements for the joint development of various real estate projects. The joint operation agreements stipulate that the Group's joint operator shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of residential and condominium units to be constructed on the properties. Costs incurred for these projects are recorded under the Real estate for sale under Inventories account in the consolidated statements of financial position (see Note 2.7).

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint operators under the joint operation agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the joint operation agreements, the Group, in addition to providing specified portion of total project development costs, also commits to advance mutually agreed-upon amounts to the landowners to be used for pre-development expenses such as the relocation of existing occupants.

As at December 31, 2018 and 2017, the Group's management has assessed that the advances to joint ventures are fully recoverable. Accordingly, no impairment loss was recognized in those years.

As at December 31, 2018 and 2017, there has been no outstanding commitment for cash advances under the joint arrangements. The net commitment for construction expenditures amounts to:

	<u>2018</u>	<u>2017</u>
Total commitment for construction expenditures	<b>P 31,949,011,190</b>	P 25,920,193,838
Total expenditures incurred	<b>( 22,122,879,520)</b>	( 18,730,950,238)
Net commitment	<b><u>P 9,826,131,670</u></b>	<u>P 7,189,243,600</u>

The Group's interests in joint operations and projects, ranging from 57% to 95% in 2018 and 2017, are as follows:

Megaworld:

- McKinley Hill
- McKinley West
- Newport City
- Manhattan Garden City
- Noble Place
- Uptown Bonifacio
- Northhill Gateway
- The Maple Grove
- Vion Tower

GERI:

- Alabang West
- Caliraya Spring
- Forest Hills
- Kingsborough
- Monte Cielo de Peñafrancia
- Mountain Meadows
- Pahara at Southwoods
- Sta. Barbara Heights  
Phase 2 & 3
- Holland Park
- Sta. Barbara Heights Shophouse  
District

SPI:

- Capitol Plaza
- Governor's Hills
- Mandara
- Sta. Rosa Heights
- Sta. Rosa Hills
- Sentosa
- Asmara
- 88 Gibraltar
- One Lakeshore
- Two Lakeshore
- Riva Bella
- Solana
- Genti Heights
- Fountain Grove
- Palm City
- The Mist Residence

EELHI:

- Pioneer Woodlands
- San Lorenzo Place
- Various Metro Manila and  
Calabarzon Projects

The aggregate amounts of the current assets, long-term assets, current liabilities and long-term liabilities as at December 31, 2018 and 2017, and income and expenses for each of the three years in the period ended December 31, 2018 related to the Group's interests in these joint arrangements, are not presented or disclosed in the consolidated financial statements as these are only joint operations in which the Group is an operator [see Note 2.2(c)].

As at December 31, 2018 and 2017, the Group has assessed that the probability of loss that may arise from contingent liabilities is remote and there are no other contingent liabilities with regard to these joint operations.

### ***10.2 Advances from Joint Ventures***

This account represents the share of joint venture partners in the proceeds from the sale of certain projects in accordance with various joint venture agreements entered into by the Group. The total outstanding balance is presented as part of Advances from Related Parties account in the consolidated statements of financial position (see Note 29.6).

**11. FINANCIAL ASSETS AT FVOCI (AFS Financial Assets – 2017 )**

As of December 31, 2018, financial assets at FVOCI [see Notes 2.4(a)(ii)] is comprised of the following:

	<u>Note</u>	
Equity securities:		
Quoted	33.2	P 138,241,610
Unquoted		<u>321,733,274</u>
		<b><u>P 459,974,884</u></b>

As of December 31, 2017, AFS financial assets [see Notes 2.4(c)(iii)] is comprised of the following:

	<u>Note</u>	
Equity securities:		
Quoted	33.2	<u>P 136,872,015</u>
Unquoted		298,031,214
Allowance for impairment		( <u>3,257,940</u> )
		<u>294,773,274</u>
		<b><u>P 431,645,289</u></b>

The reconciliation of the carrying amounts of these financial assets are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 431,645,289</b>	P 673,115,286
Additions	<b>1,980,263</b>	15,857,795
Foreign currency losses	( <b>165,687</b> )	-
Fair value gains	<b>26,515,019</b>	26,875,114
Disposals	<u>-</u>	( <u>284,202,906</u> )
Balance at end of year	<b><u>P 459,974,884</u></b>	<b><u>P 431,645,289</u></b>

Equity securities consist of local shares of stock and various proprietary club shares which are denominated in Philippine pesos. Golf club shares are proprietary membership shares of Travellers from certain golf clubs.

The fair values of the quoted financial assets have been determined by reference to published prices in an active market. The changes in the fair value amounted to P26.5 million gain in 2018, P26.9 million gain in 2017 and P10.8 million loss in 2016 and are presented as part of Net Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI (AFS Financial Assets – 2017) in the consolidated statements of comprehensive income.



Prior to 2018, upon disposal of various AFS financial assets, the Group realized gains amounting to P22.2 million in 2017 and P11.9 million in 2016, these are included under Finance Costs and Other Charges or Finance and Other Income account, respectively, in the consolidated statements of comprehensive income (see Note 26). As a result of the disposal, the fair value gains and losses accumulated in OCI pertaining to the AFS Financial assets sold were recycled to profit or loss and are included in the amount of realized gain from disposal of AFS Financial assets.

There were no disposal of financial assets at FVOCI in 2018.

## 12. INVESTMENTS IN AND ADVANCES TO ASSOCIATES AND OTHER RELATED PARTIES

### 12.1 Breakdown of Carrying Values

The details of investments in and advances to associates and other related parties and interest in joint ventures, which are carried at equity method, are presented below and in the succeeding pages.

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<b>Investments of Megaworld in Associates:</b>			
Acquisition costs:			
SHDI	12.2	<b>P 1,089,666,735</b>	P 1,089,666,735
NPI		<b>734,396,528</b>	734,396,528
BWDC		<b>199,212,026</b>	199,212,026
BNHGI	12.3	<b>109,216,973</b>	109,216,973
PTHDC		<b>64,665,000</b>	64,665,000
PCMCI		-	877,776,746
FERC		-	28,000,000
FENI		-	10,000,003
FESI		-	7,808,360
FERSAI		-	4,000,000
		<u><b>2,197,157,262</b></u>	<u>3,124,742,371</u>
Accumulated share in net losses:			
Balance at beginning of year		( 305,826,514)	( 424,655,817)
Share in net profits for the year		92,307,592	118,829,303
Write-off		( 44,899,245)	-
Balance at end of year		( 258,418,167)	( 305,826,514)
Accumulated equity in other comprehensive income:			
Balance at beginning of year		44,685,164	10,768,669
Share in other comprehensive income of associate		13,452,063	33,916,495
Balance at end of year		<u>58,137,227</u>	<u>44,685,164</u>
<i>Balance carried forward</i>		<b>P 1,996,876,322</b>	P 2,863,601,021

	Notes	<u>2018</u>	<u>2017</u>
<i>Balance brought forward</i>		<b><u>P 1,996,876,322</u></b>	<u>P 2,863,601,021</u>
<b>Investment of EMP in BLC,</b> a joint venture – acquisition cost	12.4	<u>3,703,721,965</u>	<u>3,703,721,965</u>
Withdrawal		<u>( 858,354,900)</u>	<u>( 858,354,900)</u>
Accumulated share in net profits:			
Balance at beginning of year		388,577,700	295,428,091
Share in net profits for the year		198,909,795	154,101,850
Dividend received during the year		<u>( 155,247,168)</u>	<u>( 60,952,241)</u>
Balance at end of year		<u>432,240,327</u>	<u>388,577,700</u>
		<u>3,277,607,392</u>	<u>3,233,944,765</u>
<b>Investment of Travellers in FRTMI,</b> a joint venture – acquisition cost		<u>10,000,000</u>	<u>10,000,000</u>
Accumulated share in net losses:			
Balance at beginning of year		<u>( 771,158)</u>	<u>( 538,345)</u>
Share in net losses for the year		<u>( 39,263)</u>	<u>( 232,813)</u>
Balance at end of year		<u>( 810,421)</u>	<u>( 771,158)</u>
		<u>9,189,579</u>	<u>9,228,842</u>
<b>Investment of FCI in FPARI,</b> an associate – acquisition cost		<u>14,700,000</u>	<u>14,700,000</u>
		<u>5,298,373,293</u>	<u>6,121,474,628</u>
<b>Advances to Associates and Other Related Parties</b>	29.4	<u>2,644,503,318</u>	<u>2,544,141,192</u>
		<b><u>P 7,942,876,611</u></b>	<b><u>P 8,665,615,820</u></b>

The total share in net profits amounts to P291.2 million, P272.7 million and P355.6 million for the years ended December 31, 2018, 2017 and 2016 respectively. These amounts are shown as Share in Net Profits of Associates and Joint Ventures – Net account in the consolidated statements of comprehensive income.

The carrying costs of Investments in Associates are lower than the book values of such investments in the investees' books; hence, management has assessed that recognition of impairment losses in 2018, 2017 and 2016 is not necessary.

## **12.2 SHDI**

The shares of stock of SHDI are listed in the PSE. In 2017, TDI acquired 235.0 million SHDI shares amounting to P235.0 million representing 10.44% ownership interest. Megaworld's effective ownership over SHDI increased to 45.67% as a result of TDI's acquisition of shares.

### 12.3 BNHGI

In 2017 and 2016, FEPI sold portions of its ownership interest each year, reducing the Group's effective ownership over BNHGI to 8% and 17%, respectively. The Group recognized gain on these sales, which is the difference between the proceeds over the carrying amount of the Group's investment in this associate, amounting to P113.1 million and P82.5 million in 2017 and 2016, respectively, and presented under Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

The group maintained its ability to exercise significant influence over BNHGI despite the decrease in ownership.

### 12.4 BLC

In 2017, the Group partially withdrew its investment in BLC. The amount withdrawn was used by the Group for its investment, representing 50% of the capital stock of DBLC (see Note 1.1).

### 12.5 Summarized Financial Information

The aggregated amounts of assets, liabilities, revenues and net profit (loss) of the associates and joint ventures are as follows as at and for the years ended December 31, 2018 and 2017 (in thousands):

		<b>2018</b>			
		<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
NPI	P	5,672,245	P 1,317,006	P 10	(P 1,165)
BLC		5,205,938	1,267,988	6,239,422	397,835
BWDC		2,405,653	919,092	241,488	150,106
BNHGI		1,800,339	196,755	-	( 136)
PTHDC		1,135,955	1,009,473	-	( 763)
SHDI		711,590	313,903	525,595	54,525
FRTMI		<u>3,485</u>	<u>129</u>	<u>4</u>	<u>( 79)</u>
		<b><u>P 16,935,205</u></b>	<b><u>P 5,204,346</u></b>	<b><u>P 7,006,519</u></b>	<b><u>P 600,323</u></b>
		<b>2017</b>			
		<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
NPI	P	5,673,410	P 1,317,006	P 10	(P 97)
BLC		4,460,318	1,253,479	2,686,510	308,204
BWDC		2,614,723	1,283,079	299,821	209,926
PCMC		2,442,354	8,522	3	( 9,589)
BNHGI		1,800,333	196,478	-	( 136)
PTHDC		1,136,407	1,009,162	5	( 1,589)
SHDI		707,312	364,150	535,512	61,730
FERC		277,875	209,509	-	-
FERSAI		157,909	173,014	-	-
FENI		98,511	93,113	-	-
FESI		61,571	16,234	-	-
FRTMI		<u>3,459</u>	<u>638</u>	<u>17</u>	<u>( 466)</u>
		<b><u>P 19,434,182</u></b>	<b><u>P 5,924,384</u></b>	<b><u>P 3,521,878</u></b>	<b><u>P 567,983</u></b>

### 13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of property, plant and equipment at the beginning and end of the reporting periods are shown below. [See Notes 2.9, 3.1(g) and 3.2(h)]

	<u>Land and Land Improvements</u>	<u>Buildings and Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Condominium Units, Fixtures and Other Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
<b>December 31, 2018</b>							
Cost	P 13,827,100,187	P 61,147,681,571	P 28,643,555,824	P 1,503,903,069	P 14,430,580,074	P 31,509,507,398	P 151,062,328,123
Accumulated depreciation, amortization and impairment	( 243,771,951 )	( 12,526,574,394 )	( 13,635,832,315 )	( 821,069,323 )	( 6,333,436,904 )	-	( 33,560,684,887 )
Net carrying amount	<u><b>P 13,583,328,236</b></u>	<u><b>P 48,621,107,177</b></u>	<u><b>P 15,007,723,509</b></u>	<u><b>P 682,833,746</b></u>	<u><b>P 8,097,143,170</b></u>	<u><b>P 31,509,507,398</b></u>	<u><b>P 117,501,643,236</b></u>
<b>December 31, 2017</b>							
Cost	P 13,258,156,917	P 48,777,083,571	P 23,173,692,253	P 1,255,342,539	P 11,721,288,150	P 28,345,712,887	P 126,531,276,317
Accumulated depreciation, amortization and impairment	( 210,347,851 )	( 10,172,440,363 )	( 11,938,706,307 )	( 696,565,906 )	( 5,486,731,263 )	-	( 28,504,791,690 )
Net carrying amount	<u><b>P 13,047,809,066</b></u>	<u><b>P 38,604,643,208</b></u>	<u><b>P 11,234,985,946</b></u>	<u><b>P 558,776,633</b></u>	<u><b>P 6,234,556,887</b></u>	<u><b>P 28,345,712,887</b></u>	<u><b>P 98,026,484,627</b></u>
<b>January 1, 2017</b>							
Cost	P 12,582,510,927	P 44,152,563,556	P 19,843,643,000	P 1,015,546,308	P 9,554,335,481	P 20,668,602,178	P 107,817,201,450
Accumulated depreciation, amortization and impairment	( 183,255,383 )	( 8,479,481,389 )	( 10,645,276,674 )	( 594,039,740 )	( 4,921,477,189 )	-	( 24,823,530,375 )
Net carrying amount	<u><b>P 12,399,255,544</b></u>	<u><b>P 35,673,082,167</b></u>	<u><b>P 9,198,366,326</b></u>	<u><b>P 421,506,568</b></u>	<u><b>P 4,632,858,292</b></u>	<u><b>P 20,668,602,178</b></u>	<u><b>P 82,993,671,075</b></u>

A reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the reporting periods is shown below.

	<u>Land and Land Improvements</u>	<u>Buildings and Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Condominium Units, Fixtures and Other Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated depreciation amortization and impairment	P 13,047,809,066	P 38,604,643,208	P 11,234,985,946	P 558,776,633	P 6,234,556,887	P 28,345,712,887	P 98,026,484,627
Transfer from investment property	188,327,685	3,995,657,527	-	-	779,754,000	-	4,963,739,212
Additions	400,611,838	1,736,357,067	3,567,034,502	305,532,305	1,921,481,657	12,054,594,344	19,985,611,713
Disposals – net	-	( 106,041,493)	( 195,259,103)	( 12,995,619)	( 5,066,502)	( 26,842,756)	( 346,205,473)
Reclassifications – net	( 19,996,253)	6,476,513,167	2,372,336,312	18,588,239	70,991,204	( 8,863,957,077)	54,475,592
Reversal of impairment loss	-	19,258,000	-	-	-	-	19,258,000
Depreciation and amortization charges for the year	( <u>33,424,100</u> )	( <u>2,105,280,299</u> )	( <u>1,971,374,148</u> )	( <u>187,067,812</u> )	( <u>904,574,076</u> )	-	( <u>5,201,720,435</u> )
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	<b><u>P 13,583,328,236</u></b>	<b><u>P 48,621,107,177</u></b>	<b><u>P 15,007,723,509</u></b>	<b><u>P 682,833,746</u></b>	<b><u>P 8,097,143,170</u></b>	<b><u>P 31,509,507,398</u></b>	<b><u>P 117,501,643,236</u></b>
Balance at January 1, 2017, net of accumulated depreciation amortization and impairment	P 12,399,255,544	P 35,673,082,167	P 9,198,366,326	P 421,506,568	P 4,632,858,292	P 20,668,602,178	P 82,993,671,075
Transfer from investment property	-	-	-	-	1,619,168,429	-	1,619,168,429
Transfer to investment property	-	-	-	-	( 85,581,344)	-	( 85,581,344)
Additions	1,084,373,837	3,773,769,094	3,737,159,737	300,417,618	856,448,913	10,694,765,474	20,446,934,673
Additions due to acquired subsidiaries	-	-	-	-	5,255,192	-	5,255,192
Disposals – net	( 408,727,847)	( 63,982,758)	( 76,905,182)	( 10,806,243)	( 11,451,516)	( 1,297,223,420)	( 1,869,096,966)
Write-off of damaged assets	-	( 377,467,784)	( 260,327,124)	-	( 14,809,416)	-	( 652,604,324)
Reclassifications – net	-	1,473,839,585	240,855,237	-	5,736,523	( 1,720,431,345)	-
Reversal of impairment loss	-	60,504,846	-	-	-	-	60,504,846
Depreciation and amortization charges for the year	( <u>27,092,468</u> )	( <u>1,935,101,942</u> )	( <u>1,604,163,048</u> )	( <u>152,341,310</u> )	( <u>773,068,186</u> )	-	( <u>4,491,766,954</u> )
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	<b><u>P 13,047,809,066</u></b>	<b><u>P 38,604,643,208</u></b>	<b><u>P 11,234,985,946</u></b>	<b><u>P 558,776,633</u></b>	<b><u>P 6,234,556,887</u></b>	<b><u>P 28,345,712,887</u></b>	<b><u>P 98,026,484,627</u></b>

Construction in progress includes accumulated costs incurred on the casino and hotel sites being constructed as part of Travellers' investment commitment in accordance with its Provisional License Agreement with PAGCOR [see Note 30.3(a)]. In 2018, Travellers has completed the construction of Hilton Manila. In 2017, the construction of RunWay Manila, a pedestrian link bridge that connects Ninoy Aquino International Airport Terminal (NAIA) 3 and Newport City, was completed (see Note 30.9). Accordingly, the respective accumulated costs incurred for these facilities were reclassified from Construction in progress to Buildings and leasehold improvements in 2018 and 2017.

Moreover, construction in progress also includes the accumulated costs incurred in the construction of new stores under GADC and distillery plant in Batangas. In 2018 and 2017, the corresponding costs of completed projects were transferred to specific property, plant and equipment accounts.

In 2018 and 2017, GADC's annual impairment testing of its stores resulted in recognition of gain on reversal of impairment losses amounting to P19.3 million and P60.5 million, respectively. In 2016, GADC recognized impairment losses of P166.5 million to write down to recoverable amount certain stores' property and equipment. Impairment losses are presented as Impairment of property, plant and equipment under Other Operating Expenses account in the 2016 consolidated statement of comprehensive income (see Note 25), while the gain on reversal of impairment losses are presented as part of Miscellaneous – Net under Finance and Other Income account in the 2018 and 2017 consolidated statements of comprehensive income (see Note 26). The value in use was computed using GADC's weighted average cost of capital of 12.2% in 2018 and 2017 and 15.5% in 2016.

The Group recognized net gains on disposal of various property, plant and equipment totaling P53.9 million and P115.1 million in 2018 and 2017, respectively, which are presented as part of Gain on disposal of PPE, investment properties and intangible assets – net under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26). In 2016, the Group recognized net losses on disposal of various property, plant and equipment amounting to P35.8 million, which is presented as Loss on disposal of PPE – net under Finance Costs and Other Charges account in the 2016 consolidated statement of comprehensive income (see Note 26).

In 2017, the Group wrote off certain property and equipment with carrying value of P652.6 million (see Note 30.9). This is presented as part of Losses from casualty, net of insurance claims under Finance Costs and Other Charges account in the 2017 consolidated statement of comprehensive income (see Note 26). There was no similar write-off in 2018.

The amount of depreciation is presented as part of Depreciation and amortization which is presented under Cost of Goods Sold, Cost of Services and Other Operating Expenses accounts (see Notes 24 and 25). In 2018, 2017 and 2016, depreciation expense amounting to P303.8 million, P272.9 million and P218.7 million, respectively, was capitalized to form part of the work-in-process inventory. Such capitalized amount represents depreciation expense on barrels and warehouse buildings wherein the maturing bulk stocks of whisky are held (see Note 8).

As of December 31, 2018, certain land and building with carrying values of P112.1 million and P9.5 million, respectively, are held as collateral by a local bank for a loan obtained by GADC in 2011[see Note 17(kk)].

#### 14. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land, buildings and improvements which are held for investment purposes only, either to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of the reporting periods are shown below. [See Notes 2.10, 3.1(g) and 3.2(e)(h)]

	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
<b>December 31, 2018</b>			
Cost	P 26,682,755,078	P 88,807,163,753	P 115,489,918,831
Accumulated depreciation	<u>-</u>	<u>( 10,854,385,090)</u>	<u>( 10,854,385,090)</u>
Net carrying amount	<b><u>P 26,682,755,078</u></b>	<b><u>P 77,952,778,663</u></b>	<b><u>P 104,635,533,741</u></b>
<b>December 31, 2017</b> [As restated – see Note 2.1(c)]			
Cost	P 26,312,251,257	P 79,886,816,349	P 106,199,067,606
Accumulated depreciation	<u>-</u>	<u>( 8,970,240,657)</u>	<u>( 8,970,240,657)</u>
Net carrying amount	<u>P 26,312,251,257</u>	<u>P 70,916,575,692</u>	<u>P 97,228,826,949</u>
<b>January 1, 2017</b> [As restated – see Note 2.1(c)]			
Cost	P 23,095,160,162	P 67,390,063,158	P 90,485,223,320
Accumulated depreciation	<u>-</u>	<u>( 7,424,181,679)</u>	<u>( 7,424,181,679)</u>
Net carrying amount	<u>P 23,095,160,162</u>	<u>P 59,965,881,479</u>	<u>P 83,061,041,641</u>

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

	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated depreciation as previously reported	P 9,946,455,829	P 63,053,011,232	P 72,999,467,061
Effect of prior period reclassification As restated	<u>16,365,795,428</u>	<u>7,863,564,460</u>	<u>24,229,359,888</u>
Transfer to property and equipment	( 187,391,998)	( 4,776,347,214)	( 4,963,739,212)
Additions	557,895,819	13,722,756,858	14,280,652,677
Disposals	-	( 2,464,208)	( 2,464,208)
Depreciation charges for the year	<u>-</u>	<u>( 1,907,742,465)</u>	<u>( 1,907,742,465)</u>
Balance at December 31, 2018, net of accumulated depreciation	<b><u>P 26,682,755,078</u></b>	<b><u>P 77,952,778,663</u></b>	<b><u>P 104,635,533,741</u></b>



	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation as previously reported	P 10,044,499,117	P 52,262,270,034	P 62,306,769,151
Effect of prior period reclassification	<u>13,050,661,045</u>	<u>7,703,611,445</u>	<u>20,754,272,490</u>
As restated	23,095,160,162	59,965,881,479	83,061,041,641
Transfer to property and equipment	-	( 1,619,168,429)	( 1,619,168,429)
Transfer from property, plant and equipment	-	85,581,344	85,581,344
Additions due to acquired subsidiaries	2,860,769,322	-	2,860,769,322
Additions	525,567,336	14,030,340,276	14,555,907,612
Disposals	( 169,245,563)	-	( 169,245,563)
Depreciation charges for the year	<u>-</u>	<u>( 1,546,058,978)</u>	<u>( 1,546,058,978)</u>
Balance at December 31, 2017, net of accumulated depreciation	<u>P 26,312,251,257</u>	<u>P 70,916,575,692</u>	<u>P 97,228,826,949</u>

Rental income earned from the investment property amounted to P14.8 billion, P12.4 billion and P10.5 billion for the years ended December 31, 2018, 2017 and 2016, respectively, and shown as Rental income under Rendering of Services account in the consolidated statements of comprehensive income (see Note 23). The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property that generates income amounted to P661.0 million, P568.0 million and P563.0 million in 2018, 2017 and 2016, respectively, are presented as part of Cost of Services account in the consolidated statements of comprehensive income (see Note 24). The direct operating costs, which mostly pertain to real property taxes, of investment properties that did not generate rental income in 2018, 2017 and 2016 amounted to P35.5 million, P23.3 million, and P25.1 million, respectively. The operating lease commitments of the Group as a lessor are fully disclosed in Note 30.1.

In 2018 and 2017, the Group changed its intention on the use of certain properties from being held for lease to being used for administrative purpose. The Group occupied the properties in those years and the carrying amounts of P5.0 billion and P1.6 billion, respectively, were reclassified from Investment Properties account to Property, Plant and Equipment account.

In 2017, GADC sold parcels of land to a related party with a total carrying amount of P148.7 million for P149.4 million (see Note 29). Gain from sale of land amounted to P0.7 million and is presented as part of Gain on disposal of PPE, investment properties and intangible assets – net under Finance and Other Income account in the 2017 consolidated statement of comprehensive income (see Note 26).

In 2016, certain projects under Property Development Costs were reclassified to investment properties due to change in management's intention. At the date of reclassification, the properties were fully constructed and started earning rental income.

Depreciation charges are presented as part of Depreciation and amortization under Cost of Services account in the consolidated statements of comprehensive income (see Note 24).

As at December 31, 2018 and 2017, none of the Group's investment properties are held as collateral.

The fair market values of these properties amounted to P352.5 billion and P310.1 billion as at December 31, 2018 and 2017, respectively. These are estimated either by reference to current prices for similar properties or by calculation of the present values of the estimated cash inflows anticipated until the end of the life of the investment property using discount rates that reflect the risks and uncertainty in cash flows (see Note 33.4).

## 15. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of the reporting periods are shown below (see Notes 2.12 and 2.20).

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Leasehold Rights</u>	<u>Computer Software</u>	<u>Franchise Fee</u>	<u>Total</u>
December 31, 2018						
Cost	P 20,090,166,886	P21,536,106,941	P 1,193,783,886	P 46,980,007	P 115,710,107	P42,982,747,827
Translation adjustment	111,415,506	226,808,712	-	-	-	338,224,218
Accumulated amortization	-	(1,021,726,652)	(293,327,766)	(35,996,522)	(11,340,504)	(1,362,391,444)
Net carrying amount	<u>P 20,201,582,392</u>	<u>P20,741,189,001</u>	<u>P 900,456,120</u>	<u>P 10,983,485</u>	<u>P 104,369,603</u>	<u>P41,958,580,601</u>
December 31, 2017						
Cost	P 19,848,347,372	P20,889,925,571	P 1,193,783,886	P 48,075,687	P 55,649,677	P42,035,782,193
Translation adjustment	241,819,514	646,181,370	-	-	-	888,000,884
Accumulated amortization	-	(1,019,486,261)	(234,990,795)	(29,564,926)	(2,081,824)	(1,286,123,806)
Net carrying amount	<u>P 20,090,166,886</u>	<u>P20,516,620,680</u>	<u>P 958,793,091</u>	<u>P 18,510,761</u>	<u>P 53,567,853</u>	<u>P41,637,659,271</u>
January 1, 2017						
Cost	P 19,848,347,372	P17,663,845,521	P 1,194,058,929	P 29,758,358	P -	P38,736,010,180
Accumulated amortization	-	(1,008,286,323)	(176,008,250)	(27,501,378)	-	(1,211,795,951)
Net carrying amount	<u>P 19,848,347,372</u>	<u>P16,655,559,198</u>	<u>P 1,018,050,679</u>	<u>P 2,256,980</u>	<u>P -</u>	<u>P37,524,214,229</u>

A reconciliation of the carrying amounts at the beginning and end of the reporting periods of intangible assets is shown below.

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Leasehold Rights</u>	<u>Computer Software</u>	<u>Franchise Fee</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated amortization						
	P 20,090,166,886	P20,516,620,680	P 958,793,091	P 18,150,761	P 53,567,853	P41,637,659,271
Additions	-	-	-	-	60,060,430	60,060,430
Disposals	-	-	-	(25,000)	-	(25,000)
Translation adjustment	111,415,506	226,808,712	-	-	-	338,224,218
Amortization for the year	-	(2,240,391)	(58,336,971)	(7,502,276)	(9,258,680)	(77,338,318)
Balance at December 31, 2018, net of accumulated amortization	<u>P 20,201,582,392</u>	<u>P20,741,189,001</u>	<u>P 900,456,120</u>	<u>P 10,983,485</u>	<u>P 104,369,603</u>	<u>P41,958,580,601</u>
Balance at January 1, 2017, net of accumulated amortization						
	P 19,848,347,372	P16,655,559,198	P 1,018,050,679	P 2,256,980	P -	P37,524,214,229
Additions	-	3,226,080,050	-	18,317,329	55,649,677	3,300,047,056
Translation adjustment	241,819,514	646,181,370	-	-	-	888,000,884
Amortization for the year	-	(11,199,938)	(59,257,588)	(2,063,548)	(2,081,824)	(74,602,898)
Balance at December 31, 2017, net of accumulated amortization	<u>P 20,090,166,886</u>	<u>P20,516,620,680</u>	<u>P 958,793,091</u>	<u>P 18,510,761</u>	<u>P 53,567,853</u>	<u>P41,637,659,271</u>

Goodwill primarily relates to growth expectations arising from operational efficiencies and synergies that will be achieved by combining the resources, skills and expertise of the individual components of the Group and by improving the Group's market reach and industry visibility both in the local and global market.

Trademarks pertain to acquired and new trademarks registered under the Group for the manufacture and sale of distilled spirits, which include brand names "Emperador Brandy", "Generoso Brandy", "The BaR" and "Emperador Deluxe."

In 2014, from the Group's acquisition of WMG Group, the trademarks "Jura" and "The Dalmore" were recorded for a total of P9.6 billion. In 2016, the Group's acquisition of Bodegas Fundador in Jerez resulted in the recognition of four trademarks amounting to P6.7 billion, namely "Fundador Brandy", "Terry Centenario Brandy", "Tres Cepas Brandy", and "Harveys" sherry wine [see Note 1.2(d)]. In 2017, the Group acquired various trademarks amounting to P3.2 billion which included "Domecq" brands of Mexican and Spanish brandies including "Presidente", "Azteca de Oro" and "Don Pedro"; "Garvey Brandy"; "Fino San Patricio"; and other well-known sherries and liquors brands [see Note 1.2(c)]. These trademarks have indefinite useful lives; hence, no amortization was recognized for these brands for the periods presented.

The Group monitors goodwill and trademarks with indefinite useful lives on the cash generating units to which these assets were allocated [see Notes 2.20 and 3.2(i)]. An analysis of the value-in-use and the amount of intangible assets allocated to such groups of cash generating units is presented as follows (amounts in billions of pesos):

	2018				2017			
	Allocated Intangible Assets	Value - in - Use	Terminal Growth Rate	Discount Rate	Allocated Intangible Assets	Value - in - Use	Terminal Growth Rate	Discount Rate
<b>Goodwill:</b>								
Megaworld	P 9.05	P 247.66	1.00%	9.56%	P 9.05	P 220.35	1.00%	9.87%
GADC	1.25	19.58	1.00%	9.45%	1.25	19.12	1.00%	9.41%
WMG <sup>2</sup>	7.79	12.78	1.90%	9.75%	7.70	12.24	3.00%	12.30%
GES <sup>2</sup>	1.70	10.95	1.60%	7.51%	1.68	4.46	1.60%	7.51%
<b>Trademarks with indefinite lives:</b>								
WMG brands <sup>2</sup>	9.63	44.27	1.90%	9.75%	9.64	22.50	3.00%	12.30%
Fundador and other brands <sup>2</sup>	7.73	17.97	1.60%	8.14%	7.64	17.76	1.60%	8.14%
Domecq brands <sup>1,2</sup>	3.00	-	-	-	2.85	-	-	-
Grupo Garvey brands <sup>1,2</sup>	0.38	-	-	-	0.37	-	-	-

<sup>1</sup> Management believes that the carrying values of Domecq and Grupo Garvey brands as of December 31, 2018 and 2017 and approximate their value-in-use as of that date since these were only acquired in 2017 and 2016, respectively.

<sup>2</sup> Amounts are translated at closing rate as of the end of the reporting periods in accordance with PAS 21, The Effects of Changes in Foreign Exchange Rates.

The value-in-use of each group of cash generating unit was determined using cash flow projections ranging from 3 to 5 years and extrapolating cash flows beyond the projection period using a steady terminal growth rate. The discount rates and growth rates are the key assumptions used by management in determining the value-in-use of the cash generating units. Based on management's analysis, no impairment is required to be recognized on goodwill and trademarks with indefinite useful lives. Management has also determined that a reasonably possible change in the key assumptions used would not cause the carrying value of the cash generating units to exceed their respective value-in-use.

The amortization of trademarks with finite useful lives amounted to P2.2 million in 2018, P11.2 million in 2017 and P102.9 million in 2016, and are shown as part of Depreciation and amortization under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

The remaining useful lives, as at December 31, of the trademarks with finite useful lives are as follows: [See Note 3.2(h)]

	<u>2018</u>	<u>2017</u>
Emperador Deluxe	<b>4.5 years</b>	5.5 years
The BaR	-	6 months

In 2014, WCRWI entered into a lease agreement with Nayong Pilipino Foundation (NPF) covering certain parcels of land located at the Manila Bay Reclamation Area in Parañaque City for a period of 25 years, renewable for another 25 years under the terms mutually acceptable to the parties. Upon effectivity of the lease agreement, WCRWI has paid NPF P1.0 billion (presented under Leasehold rights) covering the first 20 years of the lease. The amount of amortization charges amounted to P50.0 million in 2018, 2017 and 2016, which is presented as part of Depreciation and amortization under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

Based on the Group's assessment, no impairment loss is required to be recognized on the carrying value of the Group's trademarks as the products that carry such brands are fast moving consumer products. Further, no impairment loss is required to be recognized on the carrying value of the other intangible assets (goodwill, leasehold rights, computer software and franchise fee) in 2018, 2017 and 2016 (see Note 2.20).

As at December 31, 2018 and 2017, the Group has no contractual commitments for the acquisition of any additional trademarks, leasehold rights, computer software and franchise fee.

## 16. TRADE AND OTHER PAYABLES

The breakdown of this account follows: (See Note 2.13)

	<u>Notes</u>	<u>2018</u>	<u>2017</u> [As Restated – see Note 2.1(c)]
Trade payables	29.1, 29.2	<b>P 29,022,052,368</b>	P 21,581,628,867
Accrued expenses	29.3, 30.5(e)	<b>10,714,233,965</b>	9,232,780,171
Retention payable		<b>2,959,988,922</b>	2,837,734,011
Accrued interest	17, 18	<b>1,109,545,945</b>	1,061,463,577
Due to related parties	29.5	<b>412,878,940</b>	487,878,940
Gaming license fees payable	28.3	<b>458,077,948</b>	331,622,805
Slot jackpot liability		<b>341,415,495</b>	221,202,836
Unredeemed gaming points	3.2(l)	<b>258,517,777</b>	239,463,085
Output VAT payable		<b>257,093,560</b>	616,174,653
Withholding tax payable		<b>238,845,386</b>	301,688,160
Others	29.7	<b><u>3,409,231,651</u></b>	<u>2,207,253,699</u>
		<b><u>P 49,181,881,957</u></b>	<u>P 39,118,890,804</u>

Trade payables significantly comprise of obligations to subcontractors and suppliers of construction materials for the Group's projects and suppliers of raw materials. These also include unredeemed gaming chips determined as the difference between total gaming chips placed in service and the actual inventory of gaming chips under control or in custody, casino deposit certificates from patrons and other gaming-related liabilities.

Accrued expenses include accruals for salaries and other benefits, utilities, local and overseas travel, training and recruitment, dues and subscriptions, advertising, rentals, marketing and other operating expenses of the Group.

Retention payable pertains to amount withheld from payments made to contractors for construction work performed to ensure compliance and completion of contracted projects. Upon completion of the contracted projects, the retained amounts are returned to the contractors.

The unredeemed gaming points liability represents the estimated costs of unredeemed casino gaming points issued, which are redeemable for complimentary goods or services of the Group [see Notes 2.16 and 3.2(l)].

Others include unearned rental, payables to government and other regulatory agencies, and various unreleased checks which are reverted to liability.

## 17. INTEREST-BEARING LOANS

The composition of the Group's outstanding bank loans is shown below.

	<u>2018</u>	<u>2017</u>
Current:		
Local	<b>P 19,751,608,030</b>	P 29,039,149,317
Foreign	<u>4,778,408,668</u>	<u>3,661,326,840</u>
	<u><b>24,530,016,698</b></u>	<u>32,700,476,157</u>
Non-current:		
Local	<b>79,364,909,054</b>	46,168,893,532
Foreign	<u>63,507,027,552</u>	<u>62,104,193,498</u>
	<u><b>142,871,936,606</b></u>	<u>108,273,087,030</u>
	<u><b>P 167,401,953,304</b></u>	<u>P 140,973,563,187</u>

The summarized terms and conditions of each availed loan as at December 31, 2018 and 2017 as follows:

<u>Outstanding Principal Balance</u>			<u>Explanatory Notes</u>	<u>Interest Rate</u>	<u>Security</u>	<u>Maturity date</u>
<u>2018</u>	<u>2017</u>					
<i>Megaworld</i>						
P 5,416,666,667	P 7,083,333,333	(a)	Fixed at 5.6286%	Unsecured		2022
5,212,972,118	4,936,029,267	(b)	Floating rate on a 3-month LIBOR plus a certain spread	Unsecured		2022
4,967,438,738	-	(c)	5-day average reference plus a certain spread	Unsecured		2021
4,963,196,715	-	(d)	Fixed at 7.8488%	Unsecured		2023
4,963,177,050	-	(e)	Floating rate plus a certain spread	Unsecured		2021
3,750,000,000	5,000,000,000	(f)	Fixed at 6.4274%	Unsecured		2021
3,076,923,077	3,846,153,846	(g)	Fixed at 5.25%	Unsecured		2022
2,500,000,000	3,750,000,000	(h)	Fixed at 5.035%	Unsecured		2020
2,307,692,307	3,076,923,077	(i)	Fixed at 5.3812%	Unsecured		2021
1,833,333,333	2,000,000,000	(j)	Fixed at 5.2632%	Unsecured		2021
<u>P 38,991,400,005</u>	<u>P 29,692,439,523</u>					
<i>EELHI</i>						
P 1,250,000,000	P 1,583,333,333	(k)	Floating from 3.2% to 3.5%, and fixed 5.4%	Unsecured		2022-2023
800,000,000	-	(l)	Floating rate of 4.5%	Unsecured		2021
-	400,000,000	(m)	Floating rate of 4.5% subject to repricing	Unsecured		2018
7,616,392	18,079,643	(n)	Fixed at range of 7.0% and 9.0%	Secured		Upon collection of assigned receivables
<u>P 2,057,616,392</u>	<u>P 2,001,412,976</u>					
<i>LFI</i>						
P 250,000,000	P 375,000,000	(o)	Fixed at 5.0% subject to repricing	Unsecured		2020
<i>SPI</i>						
P 2,200,000,000	P -	(p)	Floating rate of 4.5% subject to repricing every 30 to 180 days	Unsecured		2023
900,000,000	900,000,000	(q)	3.50% subject to repricing	Unsecured		2021-2022
875,000,000	1,375,000,000	(r)	3.15% to 5.15% subject to repricing	Unsecured		2020
300,000,000	-	(s)	Floating rate of 4.5% subject to repricing every 30 to 180 days	Unsecured		2021
-	169,230,769	(t)	5.25% subject to repricing	Unsecured		2020
25,312,500	33,750,000	(u)	Fixed at range of 5.50% to 5.75%	Unsecured		2019
100,000,000	-	(u)	Floating	Unsecured		2019
880,510,493	934,037,523	(v)	Variable prevailing market rate 5.5% to 15.0%	Secured		Upon collection of related assigned receivables
<u>P 5,280,822,993</u>	<u>P 3,412,018,292</u>					

<u>Outstanding Principal Balance</u>			<u>Explanatory Notes</u>	<u>Interest Rate</u>	<u>Security</u>	<u>Maturity date</u>
<u>2018</u>	<u>2017</u>					
<b>GERI</b>						
P 2,000,000,000	P 2,000,000,000		(w)	Floating rate plus a spread of 2.5%	Unsecured	2022
1,250,000,000	1,750,000,000		(x)	Fixed based on 5-year PDST-R2 plus 1.3% spread at 3% floor	Unsecured	2021
692,307,693	1,153,846,154		(y)	Fixed based on 5-year PDST-R2 fixed based on plus 1.3% spread at 5% floor	Unsecured	2020
<u>P 3,942,307,693</u>	<u>P 4,903,846,154</u>					
<b>OFPI</b>						
<u>P 68,464,667</u>	<u>P 152,083,333</u>		(z)	Fixed at 5.035%	Unsecured	2020
<b>SWEC</b>						
<u>P 50,000,000</u>	<u>P -</u>		(aa)	Fixed at 4.2%	Unsecured	2019
<b>EIL</b>						
<u>P 22,310,991,675</u>	<u>P 22,055,700,000</u>		(bb)	1.55% plus EURIBOR	Unsecured	2021
<b>EDI</b>						
P 562,500,000	P 750,000,000		(cc)	Fixed at 5.245%	Unsecured	2021
562,500,000	750,000,000		(cc)	Fixed at 5.113%	Unsecured	2021
500,000,000	-		(dd)	Fixed at 5.9641%	Unsecured	2021
375,000,000	500,000,000		(cc)	Fixed at 5%	Unsecured	2021
<u>350,000,000</u>	<u>-</u>		(dd)	Fixed at 6.1277%	Unsecured	2021
<u>P 2,350,000,000</u>	<u>P 2,000,000,000</u>					
<b>WMG</b>						
<u>P 4,051,446,785</u>	<u>P 3,580,796,290</u>		(ee)	0.75% over LIBOR	Secured	2019
<b>DBLC</b>						
<u>P 2,970,252,180</u>	<u>P 2,980,500,000</u>		(ff)	Fixed at 1.6%	Unsecured	2022
<b>GES</b>						
<u>P 2,332,109,588</u>	<u>P 2,305,424,600</u>		(gg)	Fixed at 1.55%	Unsecured	2027
<b>GADC</b>						
P 434,761,905	P 592,857,144		(hh)	Fixed at 4.18% and 5.17%	Unsecured	2021
190,476,190	380,952,380		(ii)	3.85% to 5.15%	Unsecured	2019
136,190,476	185,714,287		(jj)	Fixed at 4.71%	Unsecured	2021
51,428,573	68,571,428		(kk)	Fixed at 5%	Secured	2021
<u>45,000,000</u>	<u>-</u>		(ll)	6.50% and 6.70%	Unsecured	2019
<u>P 857,857,144</u>	<u>P 1,228,095,239</u>					

<u>Outstanding Principal Balance</u>		<u>Explanatory Notes</u>	<u>Interest Rate</u>	<u>Security</u>	<u>Maturity date</u>
<u>2018</u>	<u>2017</u>				
<i>Travellers</i>					
<b>P 14,905,307,686</b>	P -	(mm)	Fixed at 7.0%	Unsecured	2025
<b>8,432,216,857</b>	-	(mm)	Fixed at 8.6% for two years and at 9% in the next five years	Unsecured	2025
<b>6,976,376,422</b>	6,967,063,347	(nn)	Floating rate in 2017; fixed at 6.6% in 2018	Unsecured	2024
<b>4,981,775,548</b>	4,976,083,985	(oo)	Floating rate subject to repricing in 2017; in 2018, fixed at 7.3%, subject to 5.3% floor both plus 1.15% spread	Unsecured	2024
<b>3,972,371,677</b>	-	(pp)	Floating rate subject to repricing plus a spread of 1.0%	Unsecured	2023
<b>1,500,000,000</b>	-	(oo)	Fixed at 5.0%	Unsecured	2019
<b>1,000,000,000</b>	-	(oo)	Fixed at 4.5%	Unsecured	2019
<b>1,000,000,000</b>	-	(qq)	Fixed at 4.8%	Unsecured	2019
<b>1,000,000,000</b>	-	(oo)	Fixed at 6.5%	Unsecured	2019
<b>1,000,000,000</b>	-	(oo)	Fixed at 6.5%	Unsecured	2019
<b>500,000,000</b>	-	(oo)	Fixed at 4.9%	Unsecured	2019
-	13,000,000,000	(mm)	Fixed at 4.0%	Unsecured	2018
-	2,000,000,000	(qq)	Fixed at 3.8%	Unsecured	2018
-	1,500,000,000	(oo)	Fixed at 4.0%	Unsecured	2018
-	1,000,000,000	(qq)	Fixed at 4.0%	Unsecured	2018
-	1,000,000,000	(oo)	Fixed at 4.0%	Unsecured	2018
-	1,000,000,000	(pp)	Fixed at 3.9%	Unsecured	2018
<b><u>P 45,268,048,190</u></b>	<b><u>P 31,443,147,332</u></b>				
<i>AG Cayman</i>					
<b>P 26,163,260,088</b>	P 24,894,147,905	(rr)	Fixed at 4.1456%	Unsecured	2022
<b>5,232,456,073</b>	4,978,836,085	(rr)	Fixed at 3.9%	Unsecured	2022
<b><u>5,224,919,831</u></b>	<u>4,970,115,458</u>	(rr)	Fixed at 3.8330%	Unsecured	2022
<b><u>P 36,620,635,992</u></b>	<b><u>P 34,843,092,448</u></b>				
<b><u>P 167,401,953,304</u></b>	<b><u>P 140,973,563,187</u></b>				

Explanatory Notes:

- (a) Seven-year loan obtained by Megaworld from a local bank in two tranches in March and June 2015 to fund various real estate projects and retire currently maturing obligations. Quarterly principal repayment on this seven-year loan commenced in June 2016 and interest is paid quarterly.
- (b) Five-year foreign-currency denominated loan obtained by Megaworld from a local bank in December 2017 amounting to U.S. \$98.87 million payable quarterly with a grace period of one year upon availment. The principal repayment shall commence in March 2019 and a floating interest is paid quarterly. Megaworld entered into a cross-currency swap transaction to hedge the U.S. dollar exposure of the loans (see Note 20).
- (c) Five-year loan obtained by Megaworld from a local bank in December 2018. The principal repayment is quarterly after two years from availment. Interest is payable quarterly.
- (d) Three-year loan obtained by Megaworld from a local bank in December 2018. The principal repayments shall commence on September 2019 and interest is paid quarterly.



- (e) Three-year loan obtained by Megaworld from a local bank in July 2018. The principal is payable upon maturity while interest is payable quarterly and commenced in October 2018.
- (f) Five-year loan obtained by Megaworld from a local bank in November 2016. The principal repayments commenced in February 2018 and interest is paid quarterly.
- (g) Seven-year loan obtained by Megaworld from a local bank in November 2015. The principal repayments commenced in November 2016 and interest is payable semi-annually.
- (h) Five-year loan obtained by Megaworld from a local bank in December 2015. The principal repayments commenced in March 2017 and interest is paid quarterly.
- (i) Seven-year loan obtained by Megaworld from a local bank in 2014. The principal repayments commenced in August 2015 while interest is paid semi-annually.
- (j) Five-year loan obtained by Megaworld in August 2016 from a local bank with a grace period of two years from availment. The principal repayment commenced in November 2018 and interest is paid quarterly.
- (k) Seven-year loan obtained by EELHI in 2015 from a local bank released in three tranches from 2015-2016. Proceeds were used to fund development of various real estate projects.
- (l) Three-year loan obtained by EELHI from a local bank in February 2018 where the proceeds of the loan were used to fund various real estate projects. The principal is payable upon maturity and interest is payable monthly in arrears.
- (m) Loan obtained by EELHI in December 2017 from a local bank used to fund the development of various real estate projects. Principal is payable upon maturity and interest is payable monthly in arrears. Both principal and interest were fully settled in 2018.
- (n) Loans obtained by EELHI from local banks by assigning trade receivables on a with recourse basis (see Note 6). The loans are secured by certain residential and condominium units for sale with carrying value of P117.7 million and P110.7 million as of December 31, 2018 and 2017, respectively (see Note 8).
- (o) Five-year loan obtained by LFI from a local bank in December 2015. Quarterly installments began in March 2017, plus interest.
- (p) Five-year loan obtained by SPI from a local bank in 2018 to fund the acquisition of STLL. Principal repayments is payable on a monthly basis after a grace period of three years from the date of availment.
- (q) Five-year loan obtained by SPI from a local bank in 2017 and 2016, payable on a monthly basis after a grace period of two years from the date of availment. The loan bears floating interest which is subject to repricing every 30-180 days.

- (r) Five-year loan obtained by SPI from a local bank in 2015, payable in monthly installments after two years from drawdown.
- (s) Three-year loan obtained by SPI from a local bank in 2018. The principal repayment is payable on a monthly basis after a grace period of two years from date of availment.
- (t) Five-year loan obtained by SPI from a local bank in 2015. Quarterly repayment of the loan began in 2017. In 2018, SPI pre-terminated the loan.
- (u) Outstanding balance of short-term loans availed by SPI from local banks in 2017 and 2016. In 2018, SPI obtained another short-term loan from a local bank payable in six months from date of availment.
- (v) Loans obtained by SPI from a local bank in 2015 through assignment of trade receivables (see Note 6). The loans are being paid as the receivables are collected.
- (w) Five-year loan availed by GERI in 2017 from a local bank payable quarterly commencing on the beginning of the fifth quarter from the initial drawdown date.
- (x) Five-year loan obtained by GERI in 2016 from a local bank, with a grace period of two years on principal installment. The loan is payable in quarterly installments of P125.0 million commencing on the 9th quarter from the date of initial drawdown and balloon payment at the end of five years.
- (y) Five-year loan obtained by GERI in 2015 from a local bank payable quarterly commencing on the 9th quarter from the date of initial drawdown.
- (z) Five-year loan obtained by OFPI from a local bank in 2015.
- (aa) In 2018, SWEC renewed its credit line facility with a local bank amounting to P150.0 million, for working capital purposes. In December 2018, SWEC's initial loan drawdown amounted to P50.0 million, payable within 180 days.
- (bb) Five-year foreign-currency denominated loan obtained by EIL in 2016 from international financial institutions to refinance its maturing loan.
- (cc) Five-year loan obtained by EDI in three tranches totaling P2.0 billion in 2016 from a local bank. Principal repayment is in 12 equal quarterly payments starting on the ninth quarter after the initial drawdown.
- (dd) In 2018, EDI obtained additional unsecured, interest-bearing loans at a total amount of P850.0 million from a local bank for working capital purposes. The loans shall be payable in 12 equal quarterly amortizations commencing on the beginning of the ninth quarter from the initial drawdown. The principal repayments are expected to commence on April 10, 2019.
- (ee) Foreign-currency denominated loan obtained by WMG from a foreign bank. The loan is secured by way of floating charge against WMG's inventories (see Note 8).

- (ff) Foreign-currency-denominated loans of DBLC totaling P3.0 billion used in relation to asset acquisition in 2017.
- (gg) Five-year foreign-currency denominated loan obtained by GES in 2017 from certain financial institution for asset acquisition. The loan has two-year grace period with principal repayment starting on the 24<sup>th</sup> month after the date of the loan.
- (hh) Loans obtained by GADC from local banks in 2014 payable in 21 quarterly principal payments commencing in September 2016.
- (ii) Loans drawn by GADC from a P1.0 billion local bank credit facility in 2012 and 2013. Principal is payable in 21 quarterly instalments starting December 2014 up to September 2019.
- (jj) Loan obtained by GADC from a local bank in June 2015 in relation to the P500.0 million loan facility. Principal repayments began in June 2016 for 21 quarters.
- (kk) Ten-year loan granted to GADC in December 2011 by a local bank for the purchase of land and building from the latter, payable monthly starting on the third year of the loan until December 2021. The acquired land and building served as collateral on the loan (see Note 13).
- (ll) Short-term loans obtained by GADC from a local bank in 2018 payable in 6 equal monthly installments.
- (mm) Loans drawn by Travellers from approved credit lines with a local bank of up to P10.0 billion and P21.0 billion in 2018 and 2017, respectively. Travellers made drawdowns amounting to P8.5 billion in 2018 and P13.0 billion in 2017 from such credit lines. In 2018, the P13.0 billion short-term loan was converted to a long-term loan on its maturity date and was increased to P15.0 billion. The long-term loans are payable in seven years.
- (nn) Seven-year loans obtained by Travellers in 2017 from the credit line agreements with certain local banks for the support of its expansion projects. Principal payments shall be made in lump sum upon maturity and interest is payable quarterly.
- (oo) In 2017, Travellers entered into various credit line agreements with a total maximum loanable amount of P11.5 billion from a local bank. As of December 31, 2017, drawdowns totaling to P8.0 billion were made related to these facilities. In 2018 and 2017, Travellers settled portions of these loans. The remaining outstanding balance as of December 31, 2018 and 2017 related to these drawdowns amounted to P5.0 billion.

Also with the same bank, Travellers obtained other various short-term loans in 2018 and 2017. As of December 31, 2018 and 2017, the outstanding omnibus loans from this bank amounted to P5.0 billion and P2.5 billion, respectively.

- (pp) In 2018, the Travellers obtained a credit line of P4.0 billion from a local bank. Travellers loaned the maximum amount from such facility during the year and remains outstanding as of December 31, 2018. In 2017, Travellers obtained an omnibus loan from the same bank amounting to P1.0 billion, which was settled in 2018.
- (qq) Omnibus loans obtained by Travellers from other local banks in 2018 and 2017, of which, the unpaid balance amounted to P1.0 billion and P3.0 billion as of December 31, 2018 and 2017, respectively.
- (rr) Five-year U.S. dollar-denominated loans obtained by AG Cayman in 2017 from a foreign bank totaling to US\$700.0 million with interest payable semi-annually in arrears. The loans are unconditionally and irrevocably guaranteed by AGI.

As at December 31, 2018 and 2017, the Group has complied with related loan covenants, including maintaining certain financial ratios, at the reporting dates.

Total interest expense attributable to these loans, including amortization of capitalized transaction costs, amounted to P2,875.8 million, P2,065.1 million and P778.3 million for the years ended December 31, 2018, 2017 and 2016, respectively, and are presented as part of Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2018, 2017 and 2016 are included as part of additions to Construction in progress under Property, Plant and Equipment account (see Note 13), Investment Property (see Note 14) and Real estate for sale under Inventories account (see Note 8). The amounts of outstanding accrued interest as at December 31, 2018 and 2017 are presented as part of Accrued interest under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

## 18. BONDS PAYABLE

This account consists of bonds payable of the Company's subsidiary as follows:

	<u>2018</u>	<u>2017</u>
Current –		
Megaworld	<b>P -</b>	P 9,976,270,876
Non-current –		
Megaworld	<u><b>25,102,042,365</b></u>	<u>24,388,714,176</u>
	<u><b>P 25,102,042,365</b></u>	<u>P 34,364,985,052</u>

The significant terms of the bonds are discussed below and in the succeeding page.

Face Amount	Outstanding Principal Balance		Explanatory Notes	Interest Rate	Nature	Maturity
	2018	2017				
\$250.0 million	<b>P 13.1 billion</b>	P 12.4 billion	(a)	Fixed at 4.25%	Unsecured	2023
P 12.0 billion	<b>12.0 billion</b>	11.9 billion	(b)	Fixed at 5.3535%	Unsecured	2024
\$200.0 million	<u>-</u>	<u>10.1 billion</u>	(c)	Fixed at 6.75%	Unsecured	2018
	<u><b>P 25.1 billion</b></u>	<u>P 34.4 billion</u>				

- (a) On April 17, 2013, Megaworld issued 10-year term bonds with semi-annual interest payments every April 17 and October 17. The proceeds of the bond issuance are being used by Megaworld for general corporate purposes.
- (b) On March 28, 2017, Megaworld issued seven-year term bonds totaling P12.0 billion inclusive of P4.0 billion oversubscription. The bond carries a coupon rate of 5.3535% per annum and interest is payable semi-annually in arrears every March 28 and September 28. The bonds shall mature on March 28, 2024.
- (c) On April 15, 2011, Megaworld issued seven-year term bonds with accrued interest semi-annually in arrears every April 15 and October 15 each year. The proceeds received from these bonds are being used by Megaworld to finance its capital expenditures for its real estate projects. In April 2018, the bonds were fully settled at maturity date.

Megaworld has complied with the bond covenants, including maintaining certain financial ratios at the end of the reporting periods.

Total interest attributable to these bonds, including amortization of capitalized transaction costs, amounted to P0.8 billion in 2018, P2.8 billion in 2017 and P3.4 billion in 2016. These amounts are presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2018, 2017 and 2016 are included as part of additions to Construction in progress under Property, Plant and Equipment account (see Note 13) and Investment Property account (see Note 14). The amounts of outstanding accrued interest as at December 31, 2018 and 2017 are presented as part of Accrued interest under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

## 19. REDEEMABLE PREFERRED SHARES

The Group's redeemable preferred shares pertain to preferred shares issued by GADC and TLC as presented below and in the succeeding pages. The preferred shares are considered as financial liabilities. Accordingly, the redeemable preferred shares are recognized at fair value on the date of issuance and are classified in the consolidated statements of financial position as follows:

	Notes	2018	2017
Current –			
TLC	19.2	<b>P 251,597,580</b>	P 251,597,580
Non-current:			
GADC	19.1	<b>957,471,505</b>	850,632,483
TLC	19.2	<b>754,792,740</b>	1,006,390,320
		<b><u>1,712,264,245</u></b>	<u>1,857,022,803</u>
		<b><u>P 1,963,861,825</u></b>	<u>P 2,108,620,383</u>

### **19.1 GADC's Redeemable Preferred Shares**

The shares were issued in March 2005 to McDonald's Restaurant Operations (MRO), a company incorporated in the U.S.A. and is a subsidiary of McDonald's Corporation. The features of these preferred shares with par value per share of P61,066 each are presented below (in exact amounts).

<u>Class</u>	<u>Voting</u>	<u>No. of Shares Authorized and Issued</u>	<u>Total Par Value (Undiscounted)</u>	<u>Additional Payment in the Event of GADC's Liquidation</u>
A	No	778	P 47,509,348	U.S.\$1,086 per share or the total peso equivalent of U.S.\$845,061
B	Yes	25,000	1,526,650,000	U.S.\$1,086 per share or the total peso equivalent of U.S.\$27,154,927

Additional features of the preferred shares are as follows:

- (a) Redeemable at the option of the holder after the beginning of the 19<sup>th</sup> year from the date of issuance (March 2005) for a total redemption price equivalent to the peso value on the date that the shares were issued;
- (b) Has preference as to dividends declared by the BOD, but in no event shall the dividends exceed P1 per share; and,
- (c) The holder of preferred shares is entitled to be paid a certain amount of peso equivalent for each class of preferred shares, together with any unpaid dividends, in the event of liquidation, dissolution, receivership, bankruptcy or winding up of GADC.

The redeemable preferred shares are recognized at fair values on the date of issuance which were determined as the sum of all future cash payments, discounted using the prevailing market rates of interest as of the transaction date for similar instruments with similar term of 18 years.

The accretion of GADC's redeemable preferred shares in 2018, 2017 and 2016 amounted to P106.8 million, P94.9 million and P84.3 million, respectively, and is presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). As at December 31, 2018 and 2017, the carrying value of the GADC redeemable preferred shares amounted to P957.5 million and P850.6 million, respectively, shown as part of Redeemable Preferred Shares account in the consolidated statements of financial position. As at December 31, 2018 and 2017, the fair value of these shares amounted to P1,085.3 million and P1,232.4 million, respectively, as determined by discounting the sum of all future cash flows using prevailing market rates of interest for instrument with similar maturities at a discount rate of 9.02% and 4.81%, respectively.

### **19.2 TLC's Redeemable Preferred Shares**

These were issued by TLC in September 2012 consisting of 1,258.0 million shares which are nonvoting, earns dividend at a fixed annual rate of 2.50% and subject to the existence of TLC's unrestricted retained earnings. These were issued in exchange for certain parcels of land with total fair value of P1,338.2 million. The issuance through the exchange of land was approved by the SEC on April 17, 2013.

The preferred shares have a maturity of 10 years and shall be redeemed every anniversary date beginning on the sixth anniversary date until expiration of the 10-year period. Only 1/5 of the aggregate face value of preferred shares may be redeemed per year during such redemption period, with all remaining shares to be redeemed on the 10<sup>th</sup> anniversary date.

The accrued dividends on these preferred shares amounting to P1.9 million and P2.4 million as at December 31, 2018 and 2017, respectively, are presented as part of Other Non-Current Liabilities account in the consolidated statements of financial position (see Note 20). The related interest expense recognized for the years ended December 31, 2018, 2017 and 2016 amounting to P28.4 million, P28.9 million and P29.0 million, respectively, is presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). As at December 31, 2018 and 2017, the fair values of the redeemable preferred shares on the date of issuance approximate their par values.

## 20. OTHER LIABILITIES

The composition of this account is shown below.

	Notes	2018	2017 [As Restated – see Note 2.1(c)]
Current:			
Customers' deposits	2.16	P 9,018,567,428	P 7,864,554,137
Deferred rental income		2,579,065,223	1,354,266,111
Advances from customers		1,162,425,514	1,019,082,378
Commission payable		1,165,040,058	839,455,530
Derivative liability	2.13	51,885,258	132,764,451
Others		<u>157,286,419</u>	<u>771,559,861</u>
		<u>14,134,269,900</u>	<u>11,981,682,468</u>
Non-current:			
Equity-linked debt securities	3.2(m)	5,258,801,592	5,227,114,518
Deferred rental income		4,339,191,455	4,766,032,890
Retention payable		4,063,944,817	3,289,556,628
Customers' deposit	2.16	2,513,655,988	475,548,222
Guaranty deposits		361,953,382	311,203,121
Provision for dilapidations	3.2(n)	375,407,231	295,593,594
Provision for onerous lease	3.2(o)	149,567,316	147,651,851
Accrued rent		116,455,980	117,832,141
Asset retirement obligation	2.9	74,621,159	70,485,017
Others	19.2	<u>339,975,357</u>	<u>295,763,259</u>
		<u>17,593,574,277</u>	<u>14,996,781,241</u>
		<b>P 31,727,844,177</b>	<b>P 26,978,463,709</b>

Deferred rental income refers to the rental payments advanced by the lessee at the inception of the lease which will be applied to the remaining payments at the end of the lease term.

Derivative liability recognized in 2017 includes the P109.9 million loss in fair value of a hedging instrument designated as a cash flow hedge entered into by Megaworld with a local bank (see Note 2.5). Under this cross currency swap agreement, Megaworld will receive a total of \$98.87 million to be paid on a quarterly basis beginning March 2019 up to December 2022 plus interest based on 3-month LIBOR plus a certain spread. In exchange, Megaworld shall make fixed quarterly payments in Philippine pesos plus a fixed interest of 4.91%. The Group has designated the cross currency swap as a hedging instrument to hedge the risk in changes in cash flows of its loan denominated in U.S. dollar as an effect of changes in foreign currency exchange rates and interest rates (see Note 17). The Group recognized a total of P230.8 million unrealized gain and P45.9 million unrealized loss on cash flow hedges in 2018 and 2017, respectively presented as part of other comprehensive income in its statements of comprehensive income. There was no amount of fair value changes recognized in profit or loss in both years.

As of December 31, 2018, the Group has assessed that the cross currency swap designated as a cash flow hedge will continue to be highly effective over the term of the agreement as the significant terms of the hedging instrument and the hedged loan (e.g. principal amounts, repricing dates and payment dates) are similar and with offsetting effect; hence, the Group expects to continuously use hedge accounting on the hedging relationship of its cross currency swap and on its interest-bearing loan. There was no similar transaction in 2016.

Equity-linked debt securities (ELS) instrument arises from the subscription agreement between EMP and Arran Investment Private Limited for the issuance of additional common shares of EMP. The ELS may be converted into a fixed number of common shares (conversion shares) of EMP. The ELS bears a fixed annual interest rate (5.0% initially; 0% as amended) and variable interest (equal to the same dividend price declared and payable to common shareholders). On June 15, 2017, the ELS was amended, stipulating among others the change in the fixed number of Conversion Shares (728,275,862 new and fully paid-up) and in the Share Market Price for the mandatory conversion at any time during the period beginning on Redemption Date and ending on the Extended Redemption Date to greater than P7.25 per share.

The ELS was reported wholly as a non-current liability at amortized cost in the 2016 consolidated statement of financial position. Consequent to the amendments in 2017 as mentioned in the preceding paragraph, the ELS instrument was reassessed which resulted in the financial liability component being revalued at P5.1 billion and the equity component being recognized and valued at P136.2 million [see Note 3.2(m)]. The carrying amounts of the components are presented separately in the 2018 and 2017 consolidated statements of financial position while the amortization of the revalued financial liability component is presented as part of Interest expense under Finance Cost and Other Charges account in the 2018 and 2017 consolidated statements of comprehensive income (see Note 26).

Interest expense amounted to P108.4 million, P376.1 million and P364.0 million in 2018, 2017 and 2016, respectively, and is presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).



Provision for onerous lease pertains to WML's existing non-cancellable lease agreements on leasehold properties located in Glasgow and Edinburgh, Scotland, covering manufacturing plant facilities, buildings and parking spaces, which are vacant or subleased at a discount. The provision takes into account the current market conditions, expected future vacant periods, and expected future sublet benefits and are calculated by discounting expected net cash outflows on a pre-tax basis over the remaining period of the lease, which as of December 31, 2018 and 2017, is between one to 12 years and one to 13 years, respectively.

Provision for dilapidations is recognized for the present value of the costs to be incurred by WML for the restoration of the leased properties to a specified condition at the end of the lease term in 2029 as provided in the tenant repairing clauses of lease agreements.

Others, which are currently due, include liabilities on stocks purchases and due to condo-unit holders arising from condo hotel operations while Others, which are not currently due, include accrued dividends on redeemable preferred shares (see Note 19.2) and security and miscellaneous deposits.

## 21. EQUITY

### 21.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2018	2017	2016	2018	2017	2016
Common shares – P1 par value						
Authorized	<u>12,950,000,000</u>	<u>12,950,000,000</u>	<u>12,950,000,000</u>	<u>P 12,950,000,000</u>	<u>P 12,950,000,000</u>	<u>P 12,950,000,000</u>
Issued:	10,269,827,979	10,269,827,979	10,269,827,979	<b>P 10,269,827,979</b>	P 10,269,827,979	P 10,269,827,979
Treasury stock – at cost	( <u>355,364,600</u> )	( <u>162,774,700</u> )	( <u>122,964,200</u> )	( <u>4,130,664,509</u> )	( <u>1,566,146,040</u> )	( <u>936,157,074</u> )
Total outstanding	<u>9,194,463,379</u>	<u>10,107,053,279</u>	<u>10,146,863,779</u>	<b>P 6,139,163,470</b>	<u>P 8,703,681,939</u>	<u>P 9,333,670,905</u>

On March 12, 1999, the SEC approved the initial public offering of the Company's 336.1 million shares (248.1 million then outstanding and 88.0 million new issues) at P1.27 per share. The shares were initially listed in the PSE on April 19, 1999.

A 10% stock dividend was approved by the SEC and listed in September 1999. Three private placements ensued up to January 2011, of which 1.5 billion shares were listed in 2006. Then, a 10% rights offering of 200.47 million shares and 1:1 stock rights of 2.2 billion shares were approved and listed in 2005 and 2007, respectively. In 2007, there were also a share-swap transaction and a follow-on international offering wherein 4.1 billion and 1.8 billion shares, respectively, were issued and listed.

As at December 31, 2018 and 2017, the quoted closing price per share was P11.90 and P16.00, respectively. There are 1,008 holders, which include nominees, of the Company's total issued and outstanding shares as at December 31, 2018. The percentage of the Company's shares of stocks owned by the public is 30.08% and 31.49% as at December 31, 2018 and 2017, respectively.

## ***21.2 Additional Paid-in Capital***

APIC consists mainly of P21.9 billion from the stock rights offering, share swap transaction and international offering in 2007. In 2014, the Group reissued treasury shares, resulting to an increase in APIC by P783.5 million. There was no similar transaction in 2018, 2017 and 2016.

## ***21.3 Treasury Shares***

On September 19, 2017, the BOD approved a two-year repurchase program of up to P5.0 billion worth of common shares in the open market, to enhance shareholder value. As at December 31, 2018, the Company has repurchased 232,400,400 shares for P3,194.5 million under this program.

Under the Corporation Code of the Philippines, a stock corporation can purchase or acquire its own shares provided that it has unrestricted retained earnings to cover the shares to be purchased or acquired. Accordingly, the Parent Company's ongoing share repurchase program restricts the Parent Company's retained earnings for distribution as dividends up to the cost of the treasury shares.

There are 122.96 million shares held by subsidiaries at a total cost of P936.16 million that were reported as part of treasury shares in the consolidated statements of changes in equity (see Note 2.15).

## ***21.4 Dilution Gain***

The movement in dilution gain is a direct result of dilution in the Parent Company's ownership interest in certain subsidiaries when such subsidiaries offer pre-emptive stock rights, underwent international stock offering, and acquire additional shares, in years prior to 2011.

## ***21.5 Dividends***

On November 26, 2018 and August 19, 2016, the BOD approved the declaration of cash dividends of P0.10 and P0.31 per share in each periods. Total dividends amounting to P1,003.74 million in 2018 and P3,183.65 million in 2016 were payable to stockholders of record as at December 11, 2018 and September 5, 2016, respectively. The said dividends were fully paid on December 21, 2018 and September 19, 2016, respectively. The amounts presented in the consolidated statements of changes in equity are net of dividends paid to subsidiaries. The Parent Company did not declare any dividends in 2017. (See Note 21.3)

## ***21.6 Share Options***

### ***(a) Of the Company***

On July 27, 2011, the BOD approved an Executive Share Option Plan (ESOP) for the Company's key executive officers, which was subsequently ratified by the stockholders on September 20, 2011. Under the ESOP, the Company shall initially reserve for exercise of share options up to 300.0 million common shares, or 3% of the outstanding capital stock, which may be issued out of the authorized but unissued shares. Share options may be granted within 10 years from the adoption of the ESOP and continue to be exercisable in accordance with terms of issue.

The options shall vest within three years from date of grant (offer date) and the holder may exercise only a third of the option at the end of each year of the three-year vesting period. The vested option may be exercised within seven years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for nine months immediately preceding the date of grant.

On December 19, 2011, pursuant to this ESOP, the Company granted share options to certain key executives to subscribe to 46.5 million common shares of the Company, at an exercise price of P9.175 per share. As at December 31, 2018 and 2017, all of the said options vested but none have been exercised.

On March 14, 2013, the Company granted additional 59.1 million share options to certain key executives at an exercise price of P12.9997. As at December 31, 2018 and 2017, all of the said additional options vested and none have been exercised.

The fair values of the option granted were estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP.

The following principal assumptions were used in the valuation:

	<u>March 2013</u>		<u>December 2011</u>
	Grant		Grant
Option life	7 years		7 years
Share price at grant date	P 21.65	P	10.28
Exercise price at grant date	P 12.9997	P	9.175
Average fair value at grant date	P 9.18	P	2.70
Average standard deviation of share price returns	35.29%		37.75%
Average dividend yield	2.10%		1.70%
Average risk-free investment rate	2.92%		2.87%

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time within the life of the option.

(b) *Of Megaworld*

On April 26, 2012, Megaworld's BOD approved an ESOP for its key executive officers, and on June 15, 2012, the stockholders adopted it.

The options shall generally vest on the 60<sup>th</sup> birthday of the option holder and may be exercised until the date of his/her retirement from Megaworld. The exercise price shall be at a 15% discount from the volume weighted average closing price of Megaworld's shares for nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2012, Megaworld granted share options to certain key executives to subscribe to 235.0 million of its common shares, at an exercise price of P1.77 per share.

In 2013, additional share options were granted to certain key executives to subscribe to 20.0 million common shares of Megaworld at an exercise price of P2.33 per share.

Additional 40.0 million share options were granted in 2014 at an average exercise price of P3.00 per share.

There were no additional share options granted in 2018, 2017 and 2016.

In 2018 and 2017, none and 25.0 million options, respectively, were forfeited due to resignation of key executive officers. A total of 5 million and 20.0 million options have vested in 2018 and 2017, respectively (nil in 2016).

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP.

The following principal assumptions were used in the valuation:

Option life	6.08 to 30.17 years
Share price at grant date	P 2.54 to P 4.52
Exercise price at grant date	P 1.7731 to P 3.2299
Fair value at grant date	P 0.98 to P 2.15
Average standard deviation of share price return	10.98 %
Average dividend yield	0.76 %
Average risk-free investment rate	3.64 %

The underlying expected volatility was determined by reference to historical date of Megaworld's shares over a period of time consistent with the option life.

(c) *Of GERI*

On September 23, 2011, the GERI's BOD approved an ESOP for its key executive officers. This was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the ESOP is to enable the key executives and senior officers of GERI, who are largely responsible for its further growth and development, to obtain an ownership interest and thereby encourage long-term commitment to GERI. The ESOP is being administered by the Executive Compensation Committee of GERI's BOD.

Under the ESOP, GERI shall initially reserve for exercise of share options up to 500.0 million common shares of its outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Share options may be granted within 10 years from the adoption of the ESOP and may be exercised within seven years from date of grant.

The exercise price shall be at a 15% discount from the volume weighted average closing price of GERI's shares for twelve months immediately preceding the date of grant. The options shall vest within three years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three-year period. GERI shall receive cash for the share options.

As of December 31, 2018, pursuant to this ESOP, GERI has granted the options to its key executive officers to subscribe to 400.0 million GERI shares. An option holder may exercise in whole or in part his vested option provided, that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle.

A total of 383.3 million and 350.0 million options have vested as at December 31, 2018 and 2017, respectively, but none of these have been exercised yet by any of the option holders as at the end of both reporting periods.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP.

The following principal assumptions were used in the valuation:

Average option life	7 years
Share price at grant date	P1.02 to P2.10
Exercise price at grant date	P1.00 to P1.93
Fair value at grant date	P0.24 to P2.27
Standard deviation of share price return	12.16% to 57.10%
Risk-free investment rate	2.14% to 2.59%

The underlying expected volatility was determined by reference to historical date of GERI's shares over a period of time consistent with the option life.

(d) *Of EMP*

On November 7, 2014, EMP's BOD approved an ESOP for qualified employees of EMP Group.

The options shall generally vest on the 60<sup>th</sup> birthday of the option holder and may be exercised until the date of his/her retirement from the Group provided that the employee has continuously served for 11 years after the option offer date. The exercise price shall be at a 15% discount from the volume weighted average closing price of EMP's shares of nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2015, EMP granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of EMP at an exercise price of P7.0 per share.

The fair value of the options granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Average option life	20.23 years
Average share price at grant date	P 8.90
Average exercise price at grant date	P 7.00
Average fair value at grant date	P 4.09
Average standard deviation of share price returns	10.24%
Average dividend yield	1.08%
Average risk-free investment rate	4.89%

The underlying expected volatility was determined by reference to historical prices of EMP's shares over a period of one year.

(e) *Of Travellers*

Travellers has adopted an ESOP that grants share options to eligible key executive officers.

Travellers' ESOP is exempt from the registration requirements of SEC's Securities Regulation Code with respect to the issuance of the common shares, not to exceed 945,352,491 common shares, or 6% of the outstanding capital stock of Travellers listed with the PSE, to eligible employees pursuant to Travellers' ESOP adopted by the its shareholders and BOD effective June 13, 2014.

The purpose of the ESOP is to (a) strengthen the alignment of interests between key employees and consultants of Travellers and its shareholders through the ownership of Travellers' shares of common stock and thereby increase focus on Travellers' share value; (b) motivate, attract and retain the services of key employees and consultants of Travellers, upon whose judgment, valuable work and special efforts, the day-to-day and long-term success and development of the business and the operations of Travellers are largely dependent; and, (c) encourage long-term commitment of the key employees and consultants of Travellers to contribute to the long-term financial success of Travellers.

The ESOP is being administered by the Remuneration and Compensation Committee of Travellers' BOD. As of December 31, 2018, Travellers has not granted any option to its eligible optionees.

The Group recognized a total of P53.5 million, P49.5 million and P136.3 million Share-option benefit expense in 2018, 2017 and 2016, respectively, as part of Salaries and employee benefits under Other Operating Expenses account in the consolidated statements of comprehensive income and a corresponding credit to equity through Stock Options account for the portion incurred by the Parent Company and through Non-controlling Interest account for the portion incurred by the subsidiaries (see Notes 25 and 27.3).

### ***21.7 Appropriated Retained Earnings***

In 2018, GADC's BOD approved the appropriation of P6.2 billion for its continuing business expansion projects which include construction of new stores, renovation of existing stores, development of information technology projects, office renovations and acquisition of land. The construction of new stores and renovation of existing stores are projected to be completed within a period of three to four months and spread throughout 2019. Office renovations are expected to begin in the second quarter of 2019. In 2017, GADC's BOD appropriated P4.6 billion for the continuing business expansion which was fully utilized in 2018 and the appropriation reversed in 2018. In 2016, GADC's BOD appropriated P4.1 billion for the continuing business expansion which was fully utilized in 2017 and the appropriation reversed in 2017.

In 2015, AWGI's BOD approved the appropriation of P550.0 million for the rehabilitation of the glass manufacturing plant, which was approved to be extended until 2017 in 2016. In 2017, the said appropriation was reversed. Also, in 2017, AWGI appropriated portion of its retained earnings amounting to P600.0 million for capital expenditures for the plant.

### 21.8 Subsidiaries with Material Non-controlling Interest

The subsidiaries with material non-controlling interest (NCI) are shown below and in the succeeding page (in thousands).

Name	Proportion of Ownership Interest and Voting Rights Held by NCI		Subsidiary's Consolidated Profit Allocated to NCI		Accumulated Equity of NCI	
	2018	2017	2018	2017	December 31, 2018	December 31, 2017
Megaworld	33%	33%	P 5,607,074	P 4,866,602	P 76,154,562	P 68,525,113
Travellers	53%	53%	787,686	140,187	24,445,979	23,738,408
GADC	51%	51%	842,335	853,656	1,193,204	1,366,080
Emperador	17%	18%	1,315,930	1,166,158	11,717,287	11,536,626

Dividends paid to NCI amounted to P1.3 billion in 2018 and P1.7 billion both in 2017 and 2016.

The summarized financial information of the subsidiaries, before intragroup elimination, is shown below and in the succeeding page (in thousands).

	December 31, 2018			
	Megaworld	Travellers	GADC	Emperador
Non-current assets	P 149,544,763	P 89,925,501	P 8,976,372	P 61,818,351
Current assets	172,762,514	17,370,281	11,358,262	56,000,020
Total assets	<b>P 322,307,277</b>	<b>P 107,295,782</b>	<b>P 20,334,634</b>	<b>P 117,818,371</b>
Non-current liabilities	P 89,037,357	P 44,364,606	P 2,445,815	P 36,237,036
Current liabilities	44,518,725	17,293,323	9,222,775	20,217,389
Total liabilities	<b>P 133,566,082</b>	<b>P 61,657,929</b>	<b>P 11,668,590</b>	<b>P 56,454,425</b>
<b>Revenues</b>	<b>P 57,437,985</b>	<b>P 20,566,139</b>	<b>P 28,333,547</b>	<b>P 47,050,421</b>
Profit for the year attributable to:				
Owners of Parent	P 15,218,913	P 1,443,770	P 1,646,373	P 6,658,236
NCI	624,914	(4,366)	2,685	170,713
Profit for the year	15,843,827	1,439,404	1,649,058	6,828,949
Other comprehensive income (loss) attributable to:				
Owners of Parent	607,476	54,911	34,452	(5,353)
NCI	(18,364)	-	-	68,421
Other comprehensive income (loss) for the year	589,112	54,911	34,452	63,068
<b>Total comprehensive income for the year</b>	<b>P 16,432,939</b>	<b>P 1,494,315</b>	<b>P 1,683,510</b>	<b>P 6,892,017</b>
Net cash from (used in)				
Operating activities	P 13,690,612	P 5,703,159	P 2,949,485	P 2,843,635
Investing activities	(16,088,539)	(14,718,884)	(1,424,042)	(3,167,065)
Financing activities	3,272,002	11,434,036	(832,095)	(3,610,753)

	December 31, 2017 [As Restated – see Note 2.1(c)]			
	Megaworld	Travellers	GADC	Emperor
Non-current assets	P 141,281,190	P 71,888,097	P 8,236,030	P 60,518,746
Current assets	<u>143,041,519</u>	<u>14,584,269</u>	<u>9,420,010</u>	<u>51,017,036</u>
Total assets	<u>P 284,322,709</u>	<u>P 86,472,366</u>	<u>P 17,656,040</u>	<u>P 111,535,782</u>
Non-current liabilities	P 76,671,265	P 14,326,651	P 2,642,356	P 36,344,852
Current liabilities	<u>43,951,373</u>	<u>27,824,977</u>	<u>7,622,781</u>	<u>16,837,376</u>
Total liabilities	<u>P 120,622,638</u>	<u>P 42,151,628</u>	<u>P 10,265,137</u>	<u>P 53,182,228</u>
Revenues	<u>P 50,115,043</u>	<u>P 18,592,919</u>	<u>P 25,539,935</u>	<u>P 42,655,528</u>
Profit for the year attributable to:				
Owners of Parent	P 13,145,557	P 289,273	P 1,627,810	P 6,321,784
NCI	<u>561,432</u>	<u>(9,453)</u>	<u>23,473</u>	<u>10,536</u>
Profit for the year	<u>13,706,989</u>	<u>279,820</u>	<u>1,651,283</u>	<u>6,332,320</u>
Other comprehensive income (loss) attributable to:				
Owners of Parent	2,235,176	(2,867)	100,908	1,510,520
NCI	<u>77,112</u>	<u>-</u>	<u>-</u>	<u>(226,636)</u>
Other comprehensive income (loss) for the year	<u>2,312,288</u>	<u>(2,867)</u>	<u>100,908</u>	<u>1,283,884</u>
Total comprehensive income for the year	<u>P 16,019,277</u>	<u>P 276,953</u>	<u>P 1,752,191</u>	<u>P 7,616,204</u>
Net cash from (used in)				
Operating activities	P 6,153,887	P 3,357,694	P 2,545,798	P 2,404,214
Investing activities	(15,360,049)	(13,090,002)	169,758	(8,214,883)
Financing activities	8,264,036	6,891,102	(995,240)	5,799,175

## 22. EARNINGS PER SHARE

Earnings per share is computed as follows:

	2018	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
Basic:			
Net profit attributable to owners of the parent company	<b>P 15,121,537,752</b>	P 15,192,000,737	P 14,916,844,215
Divided by the weighted average number of outstanding common shares	<u><b>9,914,463,379</b></u>	<u>10,107,053,279</u>	<u>10,146,863,779</u>
	<u><b>P 1.5252</b></u>	<u>P 1.5031</u>	<u>P 1.4701</u>



	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
Diluted:			
Net profit attributable to owners of the parent company	<b>P 15,121,537,752</b>	P 15,192,000,737	P 14,916,844,215
Divided by the weighted average number of outstanding common shares and potentially dilutive shares	<u><b>9,928,424,379</b></u>	<u>10,129,398,650</u>	<u>10,173,425,382</u>
	<u><b>P 1.5231</b></u>	<u>P 1.4998</u>	<u>P 1.4663</u>

The actual number of outstanding common shares approximates the weighted average for each year. There are 14.0 million, 22.3 million and 26.6 million potentially dilutive shares as at December 31, 2018, 2017 and 2016, respectively, from the Company's ESOP (see Note 21.6). However, such number of dilutive shares has no significant effect on the weighted average number of outstanding common shares and, consequently, has little effect on the 2018, 2017 and 2016 diluted EPS.

## 23. REVENUES

### 23.1 Disaggregation of Revenues

The Group disaggregates revenues recognized from contracts with customers into the operating business segments presented in Notes 4.1 and 4.4 that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This same disaggregation is used in earnings releases, annual reports and investor presentations.

The breakdown of revenues from sale of goods and rendering of services is presented below:

Notes	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
<b>Sale of Goods:</b>			
Revenues from RE sales:			
RE sales	2.16(c, d) <b>P 37,667,540,752</b>	P 34,115,066,390	P 30,377,505,167
Sales of consumer goods	2.16(a) <u><b>47,607,702,279</b></u>	<u>43,236,971,687</u>	<u>41,608,345,308</u>
	<u><b>P 85,275,243,031</b></u>	<u>P 77,352,038,077</u>	<u>P 71,985,850,475</u>
<b>Rendering of Services:</b>			
Sales by company-operated quick-service restaurants			
	2.16(h) <b>P 25,605,114,481</b>	P 23,069,644,779	P 20,540,105,188
Gaming	2.16(e) <b>15,881,465,964</b>	14,575,224,422	19,341,385,803
Rental income	2.16, 14 <b>14,741,266,661</b>	12,457,699,770	10,572,324,693
Hotel operations	2.16(g) <b>5,005,152,260</b>	4,186,654,787	3,789,710,840
Franchise revenues	2.16(i), 30.6 <b>2,728,432,374</b>	2,470,290,662	2,089,063,803
Others	<u><b>2,215,548,669</b></u>	<u>1,532,695,852</u>	<u>1,619,313,567</u>
	<u><b>P 66,176,980,409</b></u>	<u>P 58,292,210,272</u>	<u>P 57,951,903,894</u>

Other revenues include income from commissions, construction, property management operations, cinema operations, parking, bingo, tournaments and production shows.

The disaggregation of revenues for each reportable segment is presented below.

	2018					
	Megaworld	Travellers	GADC	Emperador	Unallocated	Total
Sale of goods	P 37,665,233,060	P -	P -	P46,345,675,149	P 1,264,334,822	P 85,275,243,031
Rendering of service	<u>17,216,095,673</u>	<u>20,532,703,973</u>	<u>28,415,529,909</u>	<u>12,650,854</u>	<u>-</u>	<u>66,176,980,409</u>
	<b><u>P 54,881,328,733</u></b>	<b><u>P20,532,703,973</u></b>	<b><u>P28,415,529,909</u></b>	<b><u>P46,358,326,003</u></b>	<b><u>P 1,264,334,822</u></b>	<b><u>P 151,452,223,440</u></b>
	2017					
	Megaworld	Travellers	GADC	Emperador	Unallocated	Total
Sale of goods	P 34,115,066,390	P -	P -	P42,206,283,523	P 1,030,688,164	P 77,352,038,077
Rendering of service	<u>14,010,285,576</u>	<u>18,578,784,045</u>	<u>25,651,627,320</u>	<u>51,513,331</u>	<u>-</u>	<u>58,292,210,272</u>
	<b><u>P 48,125,351,966</u></b>	<b><u>P18,578,784,045</u></b>	<b><u>P 25,651,627,320</u></b>	<b><u>P42,257,796,854</u></b>	<b><u>P 1,030,688,164</u></b>	<b><u>P 135,644,248,349</u></b>
	2016					
	Megaworld	Travellers	GADC	Emperador	Unallocated	Total
Sale of goods	P 30,377,505,167	P -	P -	P40,446,981,708	P 1,161,363,600	P 71,985,850,475
Rendering of service	<u>12,028,376,304</u>	<u>23,183,549,360</u>	<u>22,716,009,343</u>	<u>23,968,887</u>	<u>-</u>	<u>57,951,903,894</u>
	<b><u>P 42,405,881,471</u></b>	<b><u>P23,183,549,360</u></b>	<b><u>P22,716,009,343</u></b>	<b><u>P 40,470,950,595</u></b>	<b><u>P 1,161,363,600</u></b>	<b><u>P 129,937,754,369</u></b>

### 23.2 Contract Accounts

The significant changes in the contract assets and contract liabilities balances as of December 31 are as follows:

	2018		2017	
	Contract Assets	Contract Liabilities	Contract Assets	Contract Liabilities
Balance at beginning of year	<b>P15,909,820,985</b>	<b>P4,791,893,639</b>	P18,340,520,984	P 3,458,671,688
Transfers from contract assets recognized at the beginning of year to accounts receivables	( 2,198,476,991)	-	( 7,884,088,458)	-
Increase due to satisfaction of performance obligation over time net of cash collection	<b>8,070,269,733</b>	-	5,453,388,459	-
Increase due to acquisition of subsidiaries	<b>445,665,960</b>	<b>180,751,668</b>	-	-
Revenue recognized that was included in contract liability at the beginning of year	-	( 2,991,075,721)	-	( 1,488,531,053)
Increase due to cash received in excess of performance to date	<u>-</u>	<u><b>3,387,097,709</b></u>	<u>-</u>	<u>2,821,753,004</u>
Balance at end of year	<b><u>P22,227,279,687</u></b>	<b><u>P5,368,667,295</u></b>	<b><u>P15,909,820,985</u></b>	<b><u>P 4,791,893,639</u></b>

The outstanding balance of trade receivables arising from contracts with customers amounted to P49.5 billion and P35.2 billion as of December 31, 2018 and 2017, respectively, are presented as part of trade receivables.

### **23.3 Direct Contract Costs**

The Group incurs sales commissions upon execution of contracts to sell real properties to customers. Incremental costs of commission incurred to obtain contracts are capitalized and presented as Deferred commission under Other Current Assets, and Other Non-current Asset accounts in the 2018 consolidated statements of financial position (see Note 9). These are amortized over the expected construction period on the same basis as how the Company measures progress towards complete satisfaction of its performance obligation in its contracts. The total amount of amortization for 2018, 2017 and 2016 is presented as part of Commissions under Other Operating Expenses (see Note 25).

The movement in balances of deferred commission in 2018 and 2017 is presented below.

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 843,530,567</b>	P 866,785,887
Additional capitalized cost	<b>1,461,880,929</b>	923,942,673
Reversal due to back out	<b>( 25,875,937)</b>	-
Amortization for the period	<b>( 1,136,933,918)</b>	( 947,197,993)
Balance at end of year	<b><u>P 1,142,601,641</u></b>	<b><u>P 843,530,567</u></b>

### **23.4 Transaction Price Allocated to Unsatisfied Performance Obligations**

The aggregate amount of transaction price allocated to partially or wholly unsatisfied contracts as of December 31, 2018 is P21.3 billion. As of December 31, 2018, the Company expects to recognize revenue from unsatisfied contracts as follows:

Within a year	P 13,929,628,018
More than one year to three years	6,287,109,681
More than three years to five years	<u>1,016,292,043</u>
	<b><u>P 21,233,029,742</u></b>

## 24. COST OF GOODS SOLD AND SERVICES

The components of cost of goods sold and services are as follows:

	Notes	2018	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
<b>Cost of Goods Sold:</b>	2.16			
Cost of consumer goods sold:				
Direct materials used		<b>P 25,758,007,484</b>	P 24,850,232,749	P 21,158,868,946
Salaries and employee benefits	27.1	<b>1,324,506,139</b>	1,350,970,088	799,011,041
Change in work in process and finished goods		<b>1,094,652,102</b>	( 690,800,020)	1,957,971,123
Depreciation and amortization	13	<b>917,072,273</b>	707,755,935	646,712,276
Utilities		<b>347,138,447</b>	260,877,214	199,365,749
Indirect materials and other consumables		<b>321,029,104</b>	191,137,844	265,936,525
Repairs and maintenance		<b>284,322,167</b>	227,177,596	199,587,113
Outside services	29.1	<b>253,244,690</b>	266,253,636	224,995,771
Taxes and licenses		<b>153,438,507</b>	130,643,743	82,978,961
Supplies		<b>124,640,547</b>	103,698,826	80,688,274
Other direct and overhead costs	8	<b>695,883,912</b>	604,975,991	407,503,669
		<b><u>31,273,935,372</u></b>	<u>28,002,923,602</u>	<u>26,023,619,448</u>
Cost of RE sales:				
Contracted services		<b>16,516,692,619</b>	15,505,014,182	14,436,476,588
Land cost		<b>3,253,659,078</b>	2,072,833,307	1,904,786,990
Borrowing cost		<b>473,001,664</b>	361,376,502	307,298,967
Other costs		<b>91,911,888</b>	101,866,469	88,178,994
	2.7	<b><u>20,335,265,249</u></b>	<u>18,041,090,460</u>	<u>16,736,741,539</u>
		<b><u>P 51,609,200,621</u></b>	<u>P 46,044,014,062</u>	<u>P 42,760,360,987</u>
<b>Cost of Services:</b>	2.16			
Food, supplies and other consumables		<b>P 11,918,809,205</b>	P 10,610,845,688	P 9,492,398,116
Salaries and employee benefits	27.1	<b>7,064,302,241</b>	5,887,768,691	5,500,010,460
Gaming license fees	28.3	<b>4,380,228,290</b>	3,862,964,722	5,212,622,104
Rental		<b>4,353,601,170</b>	3,790,678,826	3,441,030,356
Depreciation and amortization	13, 14	<b>2,484,703,912</b>	2,303,011,256	2,005,475,680
Casino operating expense		<b>917,762,234</b>	581,391,736	557,521,452
Hotel operations		<b>820,752,636</b>	755,756,983	658,379,578
Outside services		<b>686,663,019</b>	584,135,049	523,816,634
Flight operations		<b>401,669,099</b>	108,444,291	338,691,065
Entertainment, amusement and recreation		<b>61,803,637</b>	36,206,352	30,287,816
Other direct and overhead costs		<b>1,871,988,190</b>	1,500,871,563	1,295,760,102
		<b><u>P 34,962,283,633</u></b>	<u>P 30,022,075,157</u>	<u>P 29,055,993,363</u>

Other direct and overhead costs include, among others, costs incurred for insurance, waste disposal, and meals.

## 25. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

	Notes	2018	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
Advertising and promotions		<b>P 8,060,090,864</b>	P 6,254,001,848	P 6,007,679,583
Salaries and employee benefits	21.6, 27.1	<b>6,590,129,223</b>	6,047,247,187	5,372,693,962
Depreciation and amortization	13, 15	<b>3,481,239,011</b>	2,828,785,589	2,448,523,774
Commissions		<b>1,727,459,061</b>	1,552,807,279	1,234,734,196
Utilities		<b>1,588,180,506</b>	1,156,691,047	1,143,779,764
Professional fees and outside services		<b>1,372,831,668</b>	870,465,583	1,214,924,097
Royalty	29.5, 30.6	<b>1,257,196,109</b>	1,132,577,168	1,059,923,224
Taxes and licenses		<b>1,150,742,613</b>	1,182,031,021	852,537,538
Transportation and travel		<b>1,052,218,692</b>	798,415,372	665,878,858
Rental		<b>637,441,531</b>	939,718,670	967,358,466
Repairs and maintenance		<b>571,651,807</b>	460,063,891	376,106,316
Freight and handling		<b>470,887,193</b>	417,206,996	437,708,284
Management fees	29.3, 30.5(e)	<b>314,538,929</b>	304,779,371	442,592,805
Representation and entertainment		<b>252,028,984</b>	231,226,865	171,311,998
Impairment of receivables	6	<b>169,501,339</b>	145,518,483	20,291,960
Communication and office expenses		<b>66,116,681</b>	52,071,893	48,782,212
Insurance		<b>31,973,829</b>	18,303,124	7,250,873
Write-down of inventories	8	<b>4,926,653</b>	-	-
Impairment of property, plant, and equipment	13	-	-	166,497,656
Miscellaneous		<b>2,778,300,334</b>	2,604,158,493	2,322,677,009
		<b><u>P 31,577,455,027</u></b>	<b><u>P 26,996,069,880</u></b>	<b><u>P 24,961,252,575</u></b>

Miscellaneous expenses include expenses incurred for security services, supplies and other consumables, donations, training and development, dues and subscriptions, and various other expenses.

These other operating expenses are classified by function as follows:

	2018	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
General and administrative expenses	<b>P 18,048,986,859</b>	P 17,163,743,802	P 14,751,697,918
Selling and marketing expenses	<b>13,528,468,168</b>	9,832,326,078	10,209,554,657
	<b><u>P 31,577,455,027</u></b>	<b><u>P 26,996,069,880</u></b>	<b><u>P 24,961,252,575</u></b>

## 26. OTHER INCOME AND CHARGES

Other income and charges provide details of Finance and Other Income account and Finance Costs and Other Charges account as presented in the consolidated statements of comprehensive income.

	Notes	2018	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
<b>Finance and other income:</b>				
Interest income	2.16,			
	5, 7	<b>P 2,833,780,599</b>	P 2,307,789,718	P 2,078,421,813
Recoveries	30.9	<b>1,710,581,049</b>	-	-
Dividend income	2.16	<b>63,767,349</b>	12,423,602	6,312,863
Gain on disposal of PPE and investment properties – net	13, 14	<b>53,917,450</b>	115,773,777	-
Gain on acquisitions and deconsolidation of subsidiaries	1.2(a),(b),(d)	<b>30,254,467</b>	-	53,333,758
Gain on sale of financial assets at FVTPL		<b>12,101,261</b>	4,799,290	-
Gain on sale of investments in an associate	12.3	-	113,069,227	82,459,513
Gain on sale of investment in AFS financial assets – net	11	-	22,230,010	11,942,807
Reversal of preacquisition loss		-	2,715,950	-
Fair value gains – net	7	-	-	159,134,466
Miscellaneous – net	6, 8, 13	<b>337,502,204</b>	<b>292,873,709</b>	<b>209,411,719</b>
		<b><u>P 5,041,904,379</u></b>	<b><u>P 2,871,675,283</u></b>	<b><u>P 2,601,016,939</u></b>
<b>Finance costs and other charges:</b>				
Interest expense	2.16, 17, 18			
	19, 20, 28	<b>P 4,084,166,535</b>	P 5,554,066,867	P 4,856,184,716
Foreign currency losses – net		<b>1,728,894,002</b>	238,147,779	1,789,065,678
Reversal of preacquisition income		<b>166,615,784</b>	-	3,314,788
Fair value losses – net	7	<b>36,629,368</b>	9,126,926	-
Losses from casualty, net of insurance claims	13, 30.9	-	430,354,462	-
Unrealized loss on interest rate swap	20	-	27,235,637	31,769,386
Loss on disposal of PPE – net	13	-	-	35,820,601
Miscellaneous		<b>836,678,047</b>	<b>624,940,194</b>	<b>565,711,463</b>
		<b><u>P 6,852,983,736</u></b>	<b><u>P 6,883,871,865</u></b>	<b><u>P 7,281,866,632</u></b>

Miscellaneous income includes gain on sale of non-current assets, marketing fees, reversal of impairment losses on receivables and others.

Miscellaneous expenses pertain to amortization of discounts on security deposits, bank charges and other related fees.

## 27. SALARIES AND EMPLOYEE BENEFITS

### 27.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	Notes	2018	2017	2016
Short-term employee benefits		<b>P 14,415,205,639</b>	P 12,585,532,010	P 11,121,876,125
Post-employment defined benefit	2.21(a), 27.2	<b>510,274,924</b>	650,996,947	413,557,705
Share option benefit expense	2.21(d), 21.6 27.3, 29.7	<b>53,457,040</b>	49,457,009	136,281,633
		<b><u>P 14,978,937,603</u></b>	<u>P 13,285,985,966</u>	<u>P 11,671,715,463</u>

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

	Notes	2018	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
Cost of goods sold	24	<b>P 1,324,506,139</b>	P 1,350,970,088	P 799,011,041
Cost of services	24	<b>7,064,302,241</b>	5,887,768,691	5,500,010,460
Other operating expenses	25	<b>6,590,129,223</b>	6,047,247,187	5,372,693,962
		<b><u>P 14,978,937,603</u></b>	<u>P 13,285,985,966</u>	<u>P 11,671,715,463</u>

### 27.2 Post-employment Defined Benefit

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

Megaworld group, EDI, ELI, GADC and WML maintain funded, tax-qualified, noncontributory post-employment benefit plans, except that ELI is partially-funded and GADC allows voluntary employee contribution. Each of the plans is being administered by a trustee bank that is legally separated from the Group. GERI and GADC's subsidiaries have unfunded, noncontributory post-employment benefit plans. In 2017, Travellers established a partially-funded, noncontributory, multi-employer post-employment benefit plan which is being administered by a trustee bank that is legally separated from the Group. All of plans mentioned cover all qualified regular and full-time employees.

The Parent Company and all other subsidiaries have no established corporate retirement plans. AWGI and TEI compute their retirement obligations based on the provisions of Republic Act (R.A.) No. 7641, *The Retirement Pay Law*. Whereas, the Parent Company and the other subsidiaries within the Group have not accrued any post-employment benefit obligation as each entity has less than ten employees. The Group's management believes that non-accrual of the estimated post-employment benefits will not have any material effect on the Group's consolidated financial statements.

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

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation reports obtained from independent actuaries in 2018 and 2017.

The amounts of retirement benefit obligation as of the end of the reporting periods, presented as non-current liability in the consolidated statements of financial position, are determined as follows:

	<u>2018</u>	<u>2017</u>
Present value of the obligation	<b>P 14,911,962,326</b>	P 15,565,665,635
Fair value of plan assets	<b>( 13,121,942,658)</b>	( 13,622,212,348)
	<b><u>P 1,790,019,668</u></b>	<b><u>P 1,943,453,287</u></b>

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 15,565,665,635</b>	P 14,156,797,542
Effects of foreign currency adjustment	<b>7,310,649</b>	1,181,203,320
Current service and interest costs	<b>807,830,206</b>	818,183,504
Past service cost	<b>63,033,600</b>	141,787,489
Remeasurement gains	<b>( 1,031,402,716)</b>	( 139,045,469)
Availment of sabbatical leave	<b>( 4,282,761)</b>	( 3,989,427)
Benefits paid	<b>( 496,192,287)</b>	( 589,271,324)
Balance at end of year	<b><u>P 14,911,962,326</u></b>	<b><u>P 15,565,665,635</u></b>

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 13,622,212,348</b>	P 11,552,491,075
Effects of foreign exchange adjustment	<b>( 3,404,740)</b>	1,101,654,000
Actuarial gain (loss)	<b>( 837,548,125)</b>	809,565,124
Contributions paid into the plan	<b>434,796,364</b>	387,692,843
Actual return on plan assets	<b>396,809,916</b>	358,102,307
Remeasurement of plan assets	<b>( 834,653)</b>	-
Benefits paid	<b>( 490,088,452)</b>	( 587,293,001)
Balance at end of year	<b><u>P 13,121,942,658</u></b>	<b><u>P 13,622,212,348</u></b>

The plan assets of MEG, EMP, GADC and Travellers as at December 31 consist of the following:

	<u>2018</u>	<u>2017</u>
Investments in:		
Other securities and debt instruments	<b>66.57%</b>	68.15%
Long-term equity investments	<b>24.35%</b>	24.41%
Unit investment trust fund	<b>1.71%</b>	1.50%
Cash and cash equivalents	<b>2.66%</b>	1.60%
Property	<b>4.49%</b>	4.26%
Loans and receivables	<b>0.22%</b>	0.08%
	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

Actual returns in 2018 and 2017 amounted to P396.8 million and P358.1 million, respectively.



The fair value of the plan assets is at Level 1 in the fair value hierarchy except for loans and receivables and property which are at Level 3 (see Note 33).

The amounts of post-employment benefits expense recognized as part of Salaries and employee benefits in profit or loss (see Note 27.1) and other comprehensive income are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>Reported in consolidated profit or loss –</i>			
Current service cost	<b>P 447,241,324</b>	P 509,209,458	P 413,557,705
Past service cost	<b><u>63,033,600</u></b>	<u>141,787,489</u>	<u>-</u>
	<b><u>P 510,274,924</u></b>	<u>P 650,996,947</u>	<u>P 413,557,705</u>
<i>Reported in consolidated other comprehensive income:</i>			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	<b>P 1,216,963,491</b>	( P 176,408,792 )	( P 2,536,455,322 )
Demographic assumptions	<b>95,290,623</b>	467,425,221	186,326,140
Experience adjustments	<b>( 284,076,339 )</b>	( 150,077,980 )	1,539,642,898
Return on plan assets (excluding amounts in net interest expense)	<b>( <u>837,548,125</u> )</b>	<u>809,565,124</u>	<u>2,789,394</u>
	<b>190,629,650</b>	950,503,573	( 807,696,890 )
Tax income (expense)	<b>( <u>73,057,872</u> )</b>	( <u>189,305,616</u> )	<u>130,194,376</u>
	<b><u>P 177,571,778</u></b>	<u>P 761,197,957</u>	<u>( P 677,502,514 )</u>

In 2018, 2017 and 2016, post-employment benefits expense amounting to P180.6 million, P158.3 million, and P154.3 million, respectively, were incurred for WML's defined contribution plan, thus will not be included in the current service cost presented under the movement of post-employment benefit obligation.

The amounts of post-employment benefits expense are included as part of Salaries and employee benefits under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

In determining the post-employment benefit obligation, the following actuarial assumptions were used:

	<u>2018</u>	<u>2017</u>
Discount rates	<b>2.58% - 8.88%</b>	2.64% - 5.83%
Expected rates of salary increases	<b>3.00% - 10.00%</b>	3.00% - 10.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The discount rates assumed were based on the yields of long-term government bonds, as of the valuation dates. The applicable period used approximate the average years of remaining working lives of the Group's employees.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk, salary risk and inflation risk.

(i) *Investment and Interest Risks*

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 plans have relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(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 portion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Group's liability.

(d) *Other Information*

(i) *Sensitivity Analysis*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

	<u>Change in Assumption</u>	<u>Impact on Post-employment Obligation</u>	
		<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b><u>December 31, 2018</u></b>			
Discount rate	+/-0.25% to +/-1.00%	(P 1,228,153,365)	P 1,329,604,167
Salary increase rate	+/-1.0%	969,478,821	( 838,214,343)
<b><u>December 31, 2017</u></b>			
Discount rate	+/-0.25% to +/-1.00%	(P 807,161,010)	P 921,120,610
Salary increase rate	+/-1.0%	498,856,843	( 384,636,791)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the 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*

The Group, through its BOD, envisions that the investment positions shall be 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 aims to match the plan assets to the retirement obligations by investing in equities and maintaining cash and cash equivalents that match the benefit payments as they fall due and in the appropriate currency.

*(iii) Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P1.8 billion based on the Group's latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 22 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan as at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Within one year	<b>P 506,286,474</b>	P 430,050,494
More than one year to five years	<b>2,155,864,158</b>	1,489,477,837
More than five years to ten years	<b>2,047,918,673</b>	1,617,308,541
More than ten years to 15 years	<b>1,022,251,275</b>	784,349,883
More than 15 years to 20 years	<b>1,835,366,408</b>	1,498,198,965
More than 20 years	<b><u>10,598,600,164</u></b>	<u>11,860,924,351</u>
	<b><u>P 18,166,287,152</u></b>	<u>P 17,680,310,071</u>

The Group expects to contribute in 2019, P33.0 million and P40.0 million to the retirement plan maintained for Megaworld and GADC, respectively. GERI and EMP have yet to decide the amount of future contributions to their existing retirement plans.

### 27.3 Share Option Benefits

The Group's share option benefit expense includes the amounts recognized by the Company, Megaworld, GERI and EMP over the vesting period of the options granted by them (Travellers has not yet granted any share options to its eligible optionees) (see Note 21.6). Options for 538.9 million shares and 520.6 million shares have vested as at December 31, 2018 and 2017, respectively. Share option benefits expense, included as part of Salaries and employee benefits amounted to P53.5 million in 2018, P49.5 million in 2017 and P136.3 million in 2016 (see Note 27.1).

## 28. TAXES

### 28.1 Current and Deferred Taxes

The tax expense (income) reported in the consolidated statements of comprehensive income for the years ended December 31 are as follows:

	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]	2016 [As Restated – see Note 2.1(c)]
<i>Reported in consolidated profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%, 25%, 20% and 10%	<b>P 4,707,781,336</b>	P4,857,600,237	P 4,888,671,510
Final tax at 20% and 15% in 2018; and 7.5% in 2017 and 2016	<b>128,439,560</b>	112,022,487	94,301,242
Preferential tax rate at 5%	<b>57,336,871</b>	63,858,452	43,955,624
Minimum corporate income tax (MCIT) at 2%	<b>78,383,637</b>	54,410,799	30,142,769
Others	<b><u>27,904,342</u></b>	<u>15,630,199</u>	<u>52,836,625</u>
	<b>4,999,845,746</b>	5,103,522,174	5,109,907,770
Deferred tax expense relating to origination and reversal of temporary differences	<b><u>3,107,658,791</u></b>	<u>1,463,100,247</u>	<u>778,455,099</u>
	<b><u>P 8,107,504,537</u></b>	<u>P6,566,622,421</u>	<u>P 5,888,362,869</u>
<i>Reported in consolidated other comprehensive income –</i>			
Deferred tax expense (income) relating to origination and reversal of temporary differences	<b><u>P 73,774,847</u></b>	<u>P 189,714,791</u>	<u>(P 117,125,824)</u>

The Company and its Philippine subsidiaries are subject to the higher of RCIT at 30% of net taxable income or MCIT which is at 2% of gross income, as defined under the Philippine tax regulations. The foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries or jurisdictions where they operate

ECOC, SEDI and Travellers are Philippine Economic Zone Authority – registered entities which are entitled to 5% preferential tax rate on gross income from registered activities in lieu of all local and national taxes and to other tax privileges.

In May 2014, the Board of Investments approved SPI's application for registration on a certain project. SPI is entitled to income tax holiday for four years from May 2014 or actual start of commercial operations/selling, whichever is earlier but in no case earlier than the date of registration, with certain terms.

The reconciliation of tax on consolidated pretax income computed at the applicable statutory rates to consolidated tax expense is as follows:

	<u>2018</u>	2017 (As Restated – see Note 2.1(c))	2016 (As Restated – see Note 2.1(c))
Tax on consolidated pretax income at 30%	<b>P 9,535,014,878</b>	P 8,652,777,302	P 8,650,470,920
Adjustment for income subjected to different tax rates	<b>( 345,795,938)</b>	( 578,379,091)	( 348,542,968)
Tax effects of:			
Income not subject to RCIT	<b>( 8,201,593,447)</b>	( 7,865,868,054)	( 8,637,611,499)
Nondeductible expenses	<b>7,464,431,878</b>	5,856,657,553	6,223,226,155
Tax benefit arising from unrecognized deferred tax asset	<b>239,154,803</b>	617,264,763	494,620,447
Adjustment to current tax from prior years	<b>27,793,181</b>	( 27,237,835)	27,256,320
Additional deduction with the use of Optional Standard Deduction (OSD)	<b>( 10,889,592)</b>	( 94,299,139)	( 405,692,407)
Changes in tax rates	<b>-</b>	-	( 100,089,472)
Others	<b>( 600,611,226)</b>	<u>5,706,922</u>	<u>( 15,274,627)</u>
Tax expense reported in consolidated profit or loss	<b><u>P 8,107,504,537</u></b>	<u>P 6,566,622,421</u>	<u>P 5,888,362,869</u>

The deferred tax assets and liabilities as at December 31 presented in the consolidated statements of financial position relate to the following:

	<u>2018</u>	2017 (As Restated – see Note 2.1(c))	2016 (As Restated – see Note 2.1(c))
Deferred tax assets:			
Retirement benefit obligation	<b>P 711,922,438</b>	P 583,929,095	P 567,259,624
Allowance for impairment losses	<b>168,828,516</b>	161,011,108	112,376,019
Allowance for property development costs	<b>9,227,732</b>	-	-
Allowance for inventory write-down	<b>8,638,235</b>	7,126,361	11,396,504
MCIT	<b>5,723,082</b>	4,423,918	150,326,920
Net operating loss carry-over (NOLCO)	<b>5,399,215</b>	9,463,930	20,849,612
Unrealized foreign currency loss	<b>3,988,361</b>	-	-
Accrued rent	<b>-</b>	-	28,662,399
Unrealized income – net	<b>-</b>	-	3,078,688
Others	<b><u>95,541,928</u></b>	<u>35,429,590</u>	<u>86,806,482</u>
	<b><u>P 1,009,269,507</u></b>	<u>P 801,384,002</u>	<u>P 980,756,248</u>
Deferred tax liabilities – net:			
Uncollected gross profit	<b>P 5,655,708,165</b>	P 4,528,857,432	P 3,973,359,862
Capitalized interest	<b>2,991,427,467</b>	2,249,073,078	1,803,280,040
Brand valuation	<b>1,832,968,656</b>	1,639,406,000	1,489,925,000
Difference between the tax reporting base and financial reporting base of property, plant and equipment	<b>1,387,749,156</b>	296,665,745	287,572,150
Unrealized foreign currency loss – net	<b>( 852,134,494)</b>	( 1,037,291,789)	( 1,220,035,435)
Retirement benefit obligation	<b>( 268,304,250)</b>	( 112,382,943)	( 295,187,069)
Uncollected rental income	<b>90,717,074</b>	31,094,119	52,328,557
Fair value adjustment	<b>78,796,405</b>	120,883,120	101,765,080
Others	<b><u>160,602,920</u></b>	<u>53,860,934</u>	<u>( 316,848,264)</u>
	<b><u>P 11,077,531,099</u></b>	<u>P 7,770,165,696</u>	<u>P 5,876,159,921</u>

The deferred tax expense reported in the consolidated statements of comprehensive income is shown below.

	Consolidated Profit or Loss			Consolidated Other Comprehensive Income		
	2018	2017	2016	2018	2017	2016
Deferred tax expense (income):						
Uncollected gross profit	P 1,218,405,616	P 242,109,769	P 1,679,877,371	P -	P -	P -
Difference between the tax reporting base and financial reporting base of property, plant and equipment	1,091,083,411	( 304,991,125)	28,781,481	-	-	-
Capitalized interest	742,354,389	521,712,906	371,781,902	-	-	-
Retirement benefit obligation	( 349,351,745)	216,716,315	( 210,775,818)	73,057,872	189,305,616	( 130,194,376)
Brand valuation	193,562,656	149,481,000	( 307,484,000)	-	-	-
Unrealized foreign currency loss (gains) - net	179,728,927	183,905,853	( 556,157,823)	-	-	-
Uncollected rental income	50,549,422	1,210,328	44,446,380	-	-	-
Fair value adjustments on AFS	( 42,086,715)	( 396,834,640)	( 261,789,420)	-	-	-
Allowance for impairment losses	29,116,331	12,432,142	10,710,914	-	-	-
NOLCO	4,064,715	11,385,882	( 4,568,539)	-	-	-
MCIT	( 1,299,164)	143,325,455	1,144,098	-	-	-
Accrued rent	-	7,394,970	-	-	-	-
Translation adjustments	-	-	-	716,975	409,175	13,068,552
Others	( 8,469,052)	675,251,392	( 17,511,447)	-	-	-
Deferred tax expense (income)	<u>P 3,107,658,791</u>	<u>P 1,463,100,247</u>	<u>P 778,445,099</u>	<u>P 73,774,847</u>	<u>P 189,714,791</u>	<u>(P 117,125,824)</u>

The details of NOLCO, which can be claimed as deduction from the respective subsidiaries' future taxable income within three years from the year the loss was incurred, are shown below.

Year	Original Amount	Applied	Expired Balance	Remaining Balance	Valid Until
2018	P 504,061,812	P -	P -	P 504,061,812	2021
2017	1,736,298,245	( 711,524,510)	-	1,024,773,735	2020
2016	795,017,654	( 774,915,232)	-	20,102,422	2019
2015	747,208,084	( 704,049,655)	( 43,158,429)	-	
	<u>P 3,782,585,795</u>	<u>(P 2,190,489,397)</u>	<u>(P 43,158,429)</u>	<u>P 1,548,937,969</u>	

Some companies within the Group are subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations. The details of excess MCIT over RCIT, which can be applied as deduction from the entities' respective future RCIT payable within three years from the year the MCIT was paid, are shown below.

Year	Original Amount	Applied	Expired Balance	Remaining Balance	Valid Until
2018	P 63,452,475	P -	P -	P 63,452,475	2021
2017	36,286,775	( 66,299)	-	36,220,476	2020
2016	31,624,246	( 1,357,695)	-	30,266,551	2019
2015	21,551,668	( 45,256)	( 21,506,412)	-	
	<u>P 152,915,164</u>	<u>(P 1,469,250)</u>	<u>(P 21,506,412)</u>	<u>P 129,939,502</u>	

The following summarizes the amount of NOLCO and other deductible temporary differences as at the end of 2018, 2017 and 2016 for which the related deferred tax assets— net have not been recognized by certain subsidiaries within the Group based on their assessments that the related tax benefits may not be realized within the prescriptive period:

	2018		2017		2016	
	Amount	Tax Effect	Amount	Tax Effect	Amount	Tax Effect
NOLCO	P 1,530,940,587	P 459,282,176	P 3,152,232,880	P 945,669,864	P 3,020,075,070	P 906,022,521
Allowance for impairment	283,085,427	84,925,628	177,213,977	53,164,193	28,167	8,450
Share-based compensation	647,239,210	194,171,763	647,239,210	194,171,763	175,780,739	52,734,222
Retirement benefit obligation	194,235,387	58,270,616	201,818,650	60,545,595	73,391,230	22,017,369
MCIT	124,154,674	124,154,674	84,173,420	84,173,420	55,435,303	55,435,303
Unrealized foreign currency losses – net	( 1,811,460)	( 543,438)	( 18,684,900)	( 5,605,470)	547,769,984	164,330,995
Allowance for inventory write-down	-	-	112,927	33,878	496,529	148,959
Unrealized loss on interest rate swap	-	-	-	-	561,969,185	168,590,756
ARO	-	-	1,123,830	337,149	300,867	90,260
	<u>P 2,777,843,825</u>	<u>P 920,261,419</u>	<u>P 4,245,229,994</u>	<u>P 1,332,490,392</u>	<u>P 4,435,247,074</u>	<u>P 1,369,378,835</u>

The total amount of NOLCO and MCIT for which no deferred tax assets have been recognized as of December 31, 2018 and 2017, would expire in full at the end of 2021 and 2020, respectively. All other unrecognized deferred tax assets do not expire.

## 28.2 Optional Standard Deduction

Philippine corporate taxpayers have an option to claim itemized deductions or OSD equivalent to 40% of gross sales. Once the option to use OSD is made at the beginning of the year, it shall be irrevocable for that particular taxable year.

In 2018, 2017 and 2016, the Philippine companies within the Group opted to continue claiming itemized deductions in computing for its income tax due, except for EDI, AWGI and MDC, which opted to claim OSD during the same taxable years.

## 28.3 Taxation of Casino Operations

Under the Provisional License Agreement with PAGCOR, Travellers is subject to 25% and 15% license fees, inclusive of franchise tax and in lieu of all taxes, with reference to the income component of the gross gaming revenues. The license fees are directly remitted by Travellers to PAGCOR as required under the Provisional License Agreement.

In April 2013, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) 33-2013 declaring that PAGCOR and its contractees and its licensees are no longer exempt from corporate income tax under the National Internal Revenue Code of 1997, as amended [see Note 30.3(c)]. Effective April 1, 2014, PAGCOR issued Guidelines for a 10% Income Tax Allocation (ITA) measure whereby, effective April 1, 2014, the 25% and 15% license fees were effectively reduced to 15% and 5%, respectively, inasmuch as 10% of the license fees was allocated for income tax on gaming, subject to quarterly and annual true-up mechanisms obliging the licensees to remit to PAGCOR any savings from the excess ITA over the actual tax paid on the gaming revenues. In 2016, the ITA ceased to be effective as a result of the Philippine Supreme Court (SC) Decision.

In August 2016, the SC, in *Bloomberry Resorts and Hotels, Inc. vs. BIR*, (the SC Decision) confirmed that “all contractees and licensees of PAGCOR, upon payment of the 5% franchise tax, shall be exempted from all other taxes, including income tax realized from the operation of casinos.” The SC Decision has been affirmed with finality by SC in a resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the BIR.

Total license fees recognized amounted to P4.4 billion, P3.9 billion and P5.2 billion in 2018, 2017 and 2016, respectively, and are presented as Gaming license fees as part of Cost of Services account in the consolidated statements of comprehensive income (see Note 24). The outstanding liabilities are presented as Gaming license fees payable under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

## 29. RELATED PARTY TRANSACTIONS

The Group’s related parties include its stockholders, associates, jointly controlled entities, the Group’s key management personnel and retirement fund, and others (see Note 2.25). The summary of the Group’s transactions and balances with its related parties as of and for the years ended December 31, 2018, 2017 and 2016 are as follows:

Related Party Category	Notes	Amount of Transaction			Outstanding Balance Receivable (Payable)	
		2018	2017	2016	2018	2017
<b>Parent Company and subsidiaries’ stockholders:</b>						
Casino transactions	29.2	P 222,106,178	P 278,977,739	P 343,690,659	(P 1,346,880)	P 6,441,882
Management fees	29.3	200,375,091	201,402,916	379,568,801	( 17,173,497)	( 12,806,175)
Accounts payable	29.5	-	( 33,000,002)	2,500,000	( 347,670,510)	( 347,670,510)
Acquisition of investment	29.7	3,714,285,146	-	-	( 1,046,400,000)	-
<b>Related party under common ownership:</b>						
Purchase of						
raw materials	29.1	3,348,852,355	2,659,080,044	3,368,144,240	( 941,949,372)	( 388,836,242)
Advances granted	29.4	238,678,133	( 119,707,370)	( 1,297,135,789)	1,512,954,344	1,274,276,211
Purchase of						
imported goods	29.1	23,643,366	11,318,183	10,684,018	( 459,844)	( 205,786)
Management services	29.1	60,000,000	45,000,000	51,000,000	( 76,500,000)	( 33,000,000)
<b>Associates –</b>						
Advances granted	29.4	( 138,316,007)	143,592,779	( 154,505,925)	1,131,548,974	1,269,864,981
<b>Others:</b>						
Advances from joint venture partners and others						
	29.6	55,488,129	588,719,285	250,094,875	( 2,385,463,118)	( 2,329,974,989)
Accounts receivable	29.5	78,811,540	( 562,586,208)	538,920,305	328,275,642	249,464,102
Sales of investment						
property	14	-	565,490,000	-	418,391,250	463,391,250
Accounts payable	29.5	( 75,000,000)	( 123,054,492)	211,103,622	( 65,208,430)	( 140,208,430)
Donations	30.3(b)	156,673,203	133,250,752	208,587,823	( 16,717,694)	( 13,511,915)

Unless otherwise stated, the outstanding balance of the Group’s transactions with its related parties are unsecured, noninterest-bearing and payable or collectible on demand.



### ***29.1 Purchase of Goods and Management Agreement***

Emperador imports raw materials such as alcohol, flavorings and other items, and finished goods through Andresons Global, Inc. and Consolidated Distillers of the Far East, inc. (Condis), related parties under common ownership. These transactions are payable within 30 days. Emperador also imports raw materials from Alcoholera dela Mancha Vinicola, S.A.U., a wholly owned subsidiary of BLC.

Moreover, Emperador also entered into a management agreement with Condis for the consultancy and advisory services in relation to the operation, management, development and maintenance of its distillery plant. . The total management fees incurred are presented as part of Outside services under the Costs of Goods Sold account in the consolidated statements of comprehensive income.

The outstanding liability related to these purchases is presented as part of Trade payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

### ***29.2 Casino Transactions with Genting Hongkong, Ltd. (GHL)***

Travellers recognized outstanding accounts to and from GHL representing show money received by Travellers (GHL) from foreign patrons which the counterparty will later remit to the other. The outstanding balances, which are unsecured, noninterest-bearing and payable in cash upon demand, are presented as part of Trade payables under Trade and Other Payables account (see Note 16), and Trade receivables under Trade and Other Receivables account (see Note 6) in the 2018 and 2017 consolidated statements of financial position, respectively.

### ***29.3 Operations and Management Agreement with GHL***

Some of Travellers' administrative functions are being handled by certain key officers and employees under the management of GHL as agreed by both parties under the Operations and Management Agreement. These transactions are presented as part of Management fees under the Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding liability, which is unsecured, noninterest-bearing and payable in cash upon demand, arising from this transaction is presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

#### **29.4 Advances to Associates and Other Related Parties**

Entities within the Group grant advances to associates and other entities for working capital purposes. These advances to associates and other related parties are unsecured, noninterest-bearing and repayable upon demand. Settlement is generally made in cash or through offsetting arrangements. The outstanding balances of Advances to associates and other related parties, which are shown as part of Investments in and Advances to Associates and Other Related Parties account in the consolidated statements of financial position, are presented as follows (these mainly represent advances granted by Megaworld) [see Note 12.1]:

	<u>2018</u>	<u>2017</u>
Associates	<b>P 1,131,548,974</b>	P 1,269,864,981
Other related parties	<u>1,512,954,344</u>	<u>1,274,276,211</u>
	<b><u>P 2,644,503,318</u></b>	<b><u>P 2,544,141,192</u></b>

The movements in the Advances to Associates and Other Related Parties account are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 2,544,141,192</b>	P 2,520,255,783
Cash advances granted	<b>355,789,071</b>	308,966,472
Collections	<u>( 255,426,945)</u>	<u>( 285,081,063)</u>
Balance at end of year	<b><u>P 2,644,503,318</u></b>	<b><u>P 2,544,141,192</u></b>

As at December 31, 2018 and 2017, based on management's assessment, the outstanding balances of advances to associates and other related parties are not impaired; hence, no impairment losses were recognized.

#### **29.5 Due from/to Related Parties**

Transactions with related parties include the following: financing of opening of letters of credit and payment of progress billing, royalty fees, rentals, interest and certain expenses in behalf of the entities within Group or other related parties. The amounts due from and to related parties are unsecured, noninterest-bearing and due and demandable any time. Settlement is generally made in cash or through offsetting arrangements.

The outstanding balances of Due from/to Related Parties are presented under Trade and Other Receivables (see Note 6) and Trade and Other Payables (see Note 16) accounts, respectively, in the consolidated statements of financial position as follows:

	<u>2018</u>	<u>2017</u>
<b><i>Due from Related Parties</i></b>		
Officers and employees	<b>P 273,599,434</b>	P 194,393,129
Other related parties	<u>54,676,208</u>	<u>55,070,973</u>
	<b><u>P 328,275,642</u></b>	<b><u>P 249,464,102</u></b>

	<u>2018</u>	<u>2017</u>
<b><i>Due to Related Parties</i></b>		
Stockholder	<b>P 347,670,510</b>	P 347,670,510
Other related parties	<u>65,208,430</u>	<u>140,208,430</u>
	<b><u>P 412,878,940</u></b>	<b><u>P 487,878,940</u></b>

The details of the due from/to related parties are as follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
<b><i>Due from Related Parties</i></b>			
Balance at beginning of year		<b>P 249,464,102</b>	P 812,050,310
Additions		<b>200,099,920</b>	74,687,948
Collections		<b>( 111,947,564)</b>	<b>( 637,274,156)</b>
	6	<b>337,616,458</b>	249,464,102
Impairment loss		<b>( 9,340,816)</b>	-
Balance at end of year		<b><u>P 328,275,642</u></b>	<b><u>P 249,464,102</u></b>
<b><i>Due to Related Parties</i></b>			
Balance at beginning of year		<b>P 487,878,940</b>	P 643,933,434
Additions		<b>150,000,000</b>	107,725,172
Repayments		<b>( 225,000,000)</b>	<b>( 263,779,666)</b>
Balance at end of year		<b><u>P 412,878,940</u></b>	<b><u>P 487,878,940</u></b>

With respect to its due from related parties, the Group recognized an impairment loss under the ECL model amounting to P9.3 million in 2018 and presented as part of Other Operating Expenses account in the 2018 consolidated statement of comprehensive income (see Note 25).

As at December 31, 2018 and 2017, based on management's assessment, the outstanding balances of Due from officers and employees and related parties are not impaired; hence, no impairment losses were recognized.

#### ***29.6 Non-current Advances from Related Parties***

Certain expenses of entities within the Group are paid for by other related parties. The advances are unsecured, noninterest-bearing, with no repayment terms, and generally payable in cash or through offsetting arrangements.

Advances from JV partners pertain to advances from golf share partners and lot owners which amounted to P395.4 million and P396.4 million in 2018 and 2017, respectively, net of deferred interest expense amounting to nil and P11.3 million, respectively (see Note 10.2).

The amortization of deferred interest amounting to P11.3 million in 2018, 2017 and 2016 is presented as part of Interest expense under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

Details of Advances from Related Parties and JV Partners are presented as follows:

	<u>2018</u>	<u>2017</u>
Advances from related parties	<b>P1,990,038,475</b>	P1,933,600,038
Advances from JV partners	<b><u>395,424,643</u></b>	<u>396,374,951</u>
	<b><u>P2,385,463,118</u></b>	<u>P2,329,974,989</u>

### ***29.7 Acquisition of Investments***

In 2018, AGI acquired 2,250.0 million shares of PCMI for P3,714.3 million from TAGI, by way of assignment of subscription rights. The acquisition represents 60% ownership in PCMI. As at December 31, 2018, there is an outstanding liability from this transaction amounting to P1,046.4 million which is shown as part of Others under Trade and Other Payables account in the 2018 statement of financial position [see Notes 1.2(a) and 16].

Effective ownership over PCMI is 71% and 11% at December 31, 2018 and 2017, respectively, derived from AGI's 60% and EELHI's 20% holdings. AGI exercises its control over PCMI through EELHI. Further, in January 2019, EELHI acquired additional shares of PCMI representing additional 20% direct ownership.

### ***29.8 Key Management Personnel Compensation***

The compensation of key management personnel is broken down as follows (see Note 27.1):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Short-term employee benefits	<b>P 1,051,064,363</b>	P 855,629,967	P 730,699,750
Share-option benefit expense	<b>124,009,692</b>	17,507,035	94,630,786
Retirement benefit expense	<b><u>26,498,871</u></b>	<u>87,428,665</u>	<u>74,849,437</u>
	<b><u>P 1,201,572,926</u></b>	<u>P 960,565,667</u>	<u>P 900,179,973</u>

### ***29.9 Transactions with the Retirement Plans***

The Group has a formal retirement plan established separately for each significant subsidiary, particularly Megaworld, GERI, ELI, Travellers, GADC, EDI and WML. These plans are defined benefit post-employment plan maintained for qualified employees, administered and managed by trustee banks (except for GERI which is still an unfunded plan) that are legally separated from the Group. The retirement funds do not provide any guarantee or surety for any obligation of the Group and their investments are not covered by any restrictions or liens. The fair value, carrying amount and the composition of the plan assets as at December 31, 2018 and 2017 are shown in Note 27.2.

### 30. COMMITMENTS AND CONTINGENCIES

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

The Group is a lessor under non-cancellable operating lease agreements covering certain office and commercial spaces. The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rate of 5% to 10%.

Future minimum lease receivables under these leases as of December 31 are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Within one-year	<b>P 14,113,088,623</b>	P 11,550,444,399	P10,862,959,288
After one year but not more than five years	<b>73,431,883,672</b>	62,792,070,703	56,270,960,545
More than five years	<u><b>22,263,027,667</b></u>	<u>19,363,948,200</u>	<u>18,267,699,701</u>
	<u><b>P109,807,999,962</b></u>	<u>P 93,706,463,302</u>	<u>P 85,401,619,534</u>

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

The Group is a lessee under several operating leases covering condominium units for administrative use. The leases have terms ranging from 1 to 40 years, with renewal options, and include a 5% to 10% annual escalation rate.

The future minimum rental payables under these non-cancellable leases as of the end of the reporting periods are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Within one year	<b>P 246,150,887</b>	P 299,466,940	P 374,066,033
After one year but not more than five years	<b>617,733,101</b>	676,697,887	685,514,740
More than five years	<u><b>936,736,508</b></u>	<u>815,218,784</u>	<u>591,096,671</u>
	<u><b>P 1,800,620,496</b></u>	<u>P 1,791,383,611</u>	<u>P 1,650,677,444</u>

#### *30.3 Provisional License Agreement of Travellers with PAGCOR*

On June 2, 2008, PAGCOR issued a Provisional License (License) authorizing Travellers to participate in the integrated tourism development project in two sites and to establish and operate casinos, and engage in gaming activities in the two sites. The term of Travellers' License shall be co-terminus with PAGCOR's franchise which will expire on July 11, 2033, and shall be renewed subject to the terms of the PAGCOR Charter.

##### *(a) Investment Commitments*

Under the terms of the License, Travellers and WCRWI are required to complete its U.S.\$1.3 billion (about P68.5 billion) investment commitment in phases, which amount is divided into Site A and Site B with the minimum investment of U.S.\$1.1 billion (about P58.0 billion) and U.S.\$216.0 million (about P11.4 billion), respectively (collectively, the Project).

Travellers and WCRWI are required to fully invest and utilize in the development of the Project at least 40% of the respective phases of the investment commitment for Site A and Site B within two years from Site Delivery.

As a requirement in developing the aforementioned Project, Travellers transferred U.S.\$100.0 million (about P5.3 billion) to an escrow account with a local bank mutually agreed by PAGCOR and Travellers. At any given time, the escrow account shall have a maintaining balance of not lower than U.S.\$50.0 million (about P2.6 billion) (see Note 9). For failure to comply with such maintaining balance requirement after a 15-day grace period, Travellers shall be charged by PAGCOR an amount equal to P2.5 million for every 15 calendar days until the noncompliance is corrected. All funds for the development of the Project shall pass through the escrow deposit and all drawdown therefrom must be applied to the Project, unless Travellers is allowed to use other funds.

As at December 31, 2018, Travellers has spent P87.2 billion for its casino projects pursuant to its investment commitment under the License. It has short-term placements amounting to U.S.\$ 59.8 million (about P3.2 billion) and U.S.\$ 62.1 million (about P3.1 billion) as at December 31, 2018 and 2017, respectively, to meet its requirements with PAGCOR in relation to these investment commitments (see Note 9).

(b) *Requirement to Establish a Foundation*

Travellers, in compliance with the requirement of PAGCOR to incorporate and register a foundation for the restoration of cultural heritage, incorporated Resorts World Philippines Cultural Heritage Foundation Inc. (or the Foundation), formerly Manila Bayshore Heritage Foundation, Inc., on September 7, 2011 primarily to engage in various activities for charitable, educational, cultural and artistic purposes, and to promote, perpetuate, preserve and encourage Filipino culture.

The Foundation shall be funded by Travellers by setting aside funds on a monthly basis. The funds set aside shall be remitted to the Foundation on or before the 10<sup>th</sup> day of the succeeding month. Travellers recognized accrual based on 2% of total gross gaming revenues from non-junket tables. PAGCOR sets the guidelines for the utilization of funds as it approves, monitors the implementation, and conducts a post-audit of the projects the Foundation undertakes.

Pursuant to PAGCOR's guidelines, the Foundation is tasked to undertake projects in line with the following disciplines: (i) restoration of cultural heritage; (ii) education infrastructure; and, (iii) environment and health. As of December 31, 2018, the following are the completed and on-going projects of the Foundation:

- Construction of school buildings in partnership with the Philippine Department of Education (DepEd) whereby five school buildings in various public schools in Metro Manila and Luzon were completed and turned over to DepEd and the collegiate universities, while one more school building is currently being constructed;
- Computerization project with DepEd through providing a computer laboratory to various public schools in various parts of the country whereby all phases of the said project covering 27 schools have been completed;

- Funding of the construction of a cadet barracks at the Philippine Military Academy (PMA) in Baguio City in a joint effort with another PAGCOR licensee's foundation, which was completed and turned over to PMA;
- Agreements with various universities to provide scholarship opportunities to poor but deserving students enrolled in the field of performing arts whereby the related funds have been granted for the scholars in each school;
- Construction of treatment and rehabilitation centers in coordination with the Department of Health in Davao City and Taguig City; and,
- Donation of funds for medicines, medical supplies and equipment for Philippine National Police Camp Crame General Hospital and Paranaque City.

(c) *Tax Contingencies of Casino Operations*

Under the Travellers' License with the PAGCOR, Travellers is subject to the 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues. In April 2013, however, the BIR issued RMC 33-2013 declaring that PAGCOR, its contractees and its licensees are no longer exempt from corporate income tax under the National Internal Revenue Code of 1997, as amended (see Note 28.3).

In August 2016, the SC confirmed that "all contractees and licensees of PAGCOR, upon payment of the 5% franchise tax, shall be exempted from all other taxes, including income tax realized from the operation of casinos." The SC Decision has been affirmed with finality by the SC in a Resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the BIR. Consistent with the decision of SC, on June 13, 2018, the Office of the Solicitor General issued a legal opinion stating that the tax exemption and imposition of 5% franchise tax in lieu of all other taxes and fees for gaming operations that was granted to PAGCOR extended to all PAGCOR contractees and licensees.

***30.4 Participation in the Incorporation of Entertainment City Estate Management, Inc. (ECEMI)***

As a PAGCOR licensee, Travellers committed itself to take part in the incorporation of ECEMI in 2012, a non-stock, non-profit entity that shall be responsible for the general welfare, property, services and reputation of the Bagong Nayong Pilipino Entertainment City Manila. As at December 31, 2018 and 2017, contributions made to ECEMI booked in favor of Travellers amounted to P1.3 million and is presented as part of Others under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

### **30.5 Various Hotel Agreements Entered by Travellers**

(a) *Marriott Group (Marriott and Courtyard Iloilo)*

Travellers has various service, license and royalty agreements with Marriott International B.V., Marriott International Design and Construction Services Inc., and International Hotel Licensing Company S.A.R.L., and Marriott International Licensing Company B.V. (collectively hereafter referred to as Marriott Group) for the license, supervision, direction, control and management of operations of the Travellers' Marriott, including the monitoring of its compliance with Marriott Group's standards.

The service agreements also include certain services in support of Marriott outside the Philippines. Such services are generally made available to hotels in the Marriott System and shall include the international advertising, promotion and sales programs, core training programs and other training programs for the benefit of the Marriott employees, special services and programs for the benefit of the Marriott System, and the reservations system, property management system and other systems.

Further, the license and royalty agreement with Marriott Group grants Travellers a non-exclusive and non-transferable right and license within Metro Manila and Iloilo to use the Marriott Trademarks for hotel services and other related goods and services offered only in connection with Travellers' Marriott.

(b) *Holiday Inn*

In 2017, Travellers also entered into a Hotel Management Agreement (HMA) with Holiday Inns (Philippines), Inc. for the license, supervision, direction, control and management of operations of Holiday Inn Express (formerly Remington Hotel), including the monitoring of its compliance with the hotel group standards. The HMA includes security arrangements, refurbishment of the existing structure, rebranding, advertising, promotion and sales programs, core training programs and other training programs for the benefit of the employees, special services, the reservations system, property management system and other systems.

The parties also entered into a Franchise Agreement for the non-exclusive use and non-transferable license to use the brand marks for the hotel services and other related goods offered in connection with Travellers' Holiday Inn Express, which started operating in January 2018.

As of December 31, 2018, there were no payments yet for the agreements with Holiday Inn.

(c) *Hotel Okura Manila*

Also in 2017, Travellers and Hotel Okura Co., Ltd (Okura) signed another HMA for the license, supervision, direction, control and management of operations of the Hotel Okura Manila, which includes advertising, promotion and sales programs, core training programs and other training programs for the benefit of the employees, special services, the reservations system, property management system and other systems.



The HMA with Okura grants Travellers a non-exclusive and non-transferable right to use the Okura trademarks for hotel services and other related goods and services offered only in connection with the Hotel Okura Manila, which is expected to open in 2019.

(d) *Sheraton Manila Hotel*

In 2017, an Operating Services Agreement (OSA) was executed between LSHRI and Starwood Asia Pacific Hotels & Recreation PTE. LTD (Starwood), a fully-owned company of Marriott Group, for the license, supervision, direction, control and management of operations of the Sheraton Manila Hotel, including the monitoring of its compliance with Marriott Group's standards.

The OSA also includes certain services similar to those covered by the existing agreement with the Marriott Group. Likewise, the license and royalty agreement with Starwood grants LSHRI similar rights provided by Marriott Group to Travellers. Sheraton Manila Hotel is expected to start its operations in 2019.

(e) *Hilton Manila*

Also in 2017, a Management Agreement (MA) was executed between DHRI and Hilton International Manage LLC (Hilton) for the license, supervision, direction, control and management of operations of Hilton Manila, including the monitoring of its compliance with Hilton's standards.

The MA includes design and decoration of the Hilton Manila, advertising, promotion and sales programs, core training programs and other training programs for the benefit of the Hilton employees, special services and programs, and the reservations system, property management system and other systems.

The MA grants DHRI a nonexclusive and nontransferable right to use the Hilton Trademarks for hotel services and other related goods and services offered only in connection with the Hilton Manila. The Hilton Manila started operations in October 2018.

Payments to be made by Travellers for operating these foregoing hotel brand shall be computed based on the provisions of the above agreements. Total amounts recognized from these transactions in 2018, 2017 and 2016 totaled P117.1 million, P103.0 million and P62.8 million, respectively, and are presented as part of Management fees under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding liabilities, which are unsecured, noninterest-bearing and payable in cash upon demand, as at December 31, 2018 and 2017 amounted to P104.5 million and P7.5 million, respectively, and are presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

### ***30.6 License Agreements with MRO***

MRO granted GADC the nonexclusive right to adopt and use the McDonald's System in its restaurant operations in the Philippines. In March 2005, the license agreement was renewed for another 20 years, and provides for a royalty fee based on certain percentage of gross sales from the operations of GADC's restaurants, including those operated by the franchisees. GADC recognized royalty expenses amounting to P1,257.2 million, P1,132.6 million and P1,059.9 million for 2018, 2017 and 2016, respectively, which are presented under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding payable to MRO relating to royalty expenses amounted to P227.8 million and P204.1 million as at December 31, 2018 and 2017, respectively, and presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

Individual sublicense arrangements granted to franchisees and joint venturers generally include a lease and a license to use the McDonald's system in the Philippines and, in certain cases, the use of restaurant facility, generally for a period of 10 years provided, however, that should GADC's license rights from McDonald's be terminated at an earlier date or not renewed for any reason whatsoever, these sublicense agreements shall thereupon also be terminated. Revenues recognized from sublicense agreements are presented as Franchise revenues in the consolidated statement of comprehensive income (see Note 23.1).

### ***30.7 Consortium Agreement for Ninoy Aquino International Airport (NAIA)***

In February 12, 2018, AGI as a member of a consortium of seven (7) conglomerates, submitted a P102-billion unsolicited proposal to the Department of Transportation (DOTr) for the improvement, upgrade, enhancement, expansion, operation and maintenance, and management of the NAIA. In September 10, 2018, the DOTr and Manila International Airport Authority granted an Original Proponent Status (OPS) to the consortium.

### ***30.8 Skytrain Project***

In October 10, 2017, the Group submitted a P3-billion unsolicited proposal to the government to build a 1.87-kilometer Skytrain monorail project and transfer its ownership title to the government. The Group was granted an OPS by the DOTr in May 17, 2018. The following day, DOTr formally endorsed the project to the National Economic and Development Authority – Investment Coordination Committee and is now undergoing review and evaluation

### ***30.9 Others***

As at December 31, 2018 and 2017, the Group has unused lines of credit from banks and financial institutions totaling P27.5 billion and P23.7 billion respectively.

In 2016, Travellers was granted a right by the Philippine Government to construct RunWay Manila, a pedestrian link bridge that connects NAIA Terminal 3 and Newport City, and which is accessible to the public, free of charge. RunWay Manila is fully financed by Travellers and was completed in April 2017.

On June 2, 2017, a certain individual entered Travellers' premises, fired his assault rifle, and set ablaze gaming furniture and equipment in the casino which resulted to physical damages on a portion of the properties [see Notes 3.1(n) and 13]. The individual forcibly entered the casino area with a clear motive to rob and he started fires as a diversionary tactic. The smoke from the fires caused the death of several employees and guests, as well as physical injuries to a number of people.

As opined by Travellers' external counsel, based on the reports from the insurer's adjusters, and taking into consideration the reports of the pertinent government agencies, there is strong legal ground to believe that the insurance claims related to the June 2 incident will not be disallowed. Consequently, property damages and losses were recognized and presented as Losses from casualty, net of insurance claims under Finance and Other Charges account in the 2017 consolidated statement of comprehensive income (see Note 26). The related receivable representing the reimbursement from expected minimum insurance claims and recoveries from the third party insurance company is presented as Claims receivables under Trade and Other Receivables account in the 2017 consolidated statement of financial position (see Note 6).

In 2018, the Group fully collected the claims accrued as of December 31, 2017 and received additional recoveries for business interruption. The Group presented the income from these recoveries under Finance and Other Income account in the 2018 consolidated statement of comprehensive income (see Note 26).

There are other commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying consolidated financial statements. The management of the Group is of the opinion that losses, if any, from these items will not have any material effect on its consolidated financial statements.

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

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, financial assets at FVOCI, AFS financial assets, interest-bearing loans, bonds payable, trade receivables and payables and derivative liabilities which arise directly from the Group's business operations. The financial debts were issued to raise funds for the Group's capital expenditures.

The Group does not actively engage in the trading of financial assets for speculative purposes.

The Group is exposed to a variety of financial risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

#### ***31.1 Market Risk***

##### ***(a) Foreign Currency Sensitivity***

Most of the Group's transactions are carried out in Philippine pesos, Euros, U.K. pounds and US dollars, which are the functional currencies of the individual subsidiaries making the transactions. The currency exchange risk arises from transactions carried out in currencies other than the functional currency of the subsidiaries at each entity level.

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

	2018		2017	
	U.S. Dollars	HK Dollars	U.S. Dollars	HK Dollars
Financial assets	P 5,046,723,090	P 4,393,877,128	P 5,735,896,982	P 1,654,695,454
Financial liabilities	( 20,699,495,919)	( 1,128,098,097)	( 28,240,870,131)	( 508,438,210)
	<u>(P 15,652,772,829)</u>	<u>P 3,265,779,031</u>	<u>(P 22,504,973,149)</u>	<u>P 1,146,257,244</u>

The sensitivity of the consolidated income before tax for the period with regard to the Group's financial assets and the U.S. dollar – Philippine peso exchange rate assumes +/- 7.43% and +/- 8.65% changes in exchange rate for the years ended December 31, 2018 and 2017, respectively. The HK dollar – Philippine peso exchange rate assumes +/- 7.57% and +/- 8.99% changes for the year ended December 31, 2018 and 2017. These percentages have been determined based on the average market volatility in exchange rates in the previous year and 12 months, respectively, estimated at 95% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting periods.

If the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, consolidated profit before tax would have increased by P1.2 billion for the year ended December 31, 2018 and increased by P1.9 billion for the year ended December 31, 2017. If in 2018 and 2017, the Philippine peso had strengthened against the HK dollar, with all other variables held constant, consolidated profit before tax would have decreased by P0.2 billion for the year ended December 31, 2018 and P0.1 billion for the year ended December 31, 2017.

However, if the Philippine peso had weakened against the U.S. dollar and the HK dollar by the same percentages; then consolidated profit before tax would have change at the opposite direction by the same amounts.

The Group has no significant exposure to changes in foreign currency exchange rates for Euros and U.K. pounds since these currencies are not significant to the Group's consolidated financial statements.

The Group periodically reviews the trend of the foreign exchange rates and monitors its non-functional currency cash flows.

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

*(b) Interest Rate Sensitivity*

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. At present, the Group is exposed to changes in market interest rates through bank borrowing and cash and cash equivalents, which are subject to variable interest rates. The Group maintains a debt portfolio unit of both fixed and variable interest rates. All other financial assets are subject to variable interest rates.

The sensitivity of the consolidated income before tax for the period to a reasonably possible change in interest rates of +/- 2.91% for Philippine peso and +/- 1.99% for U.S. dollar in 2018 and +/- 0.97% for Philippine peso and +/- 1.14% for U.S. dollar in 2017 with effect from the beginning of the period. These percentages have been determined based on the average market volatility in interest rates, using standard deviation, in the previous year and 12 months, respectively, estimated at 95% level of confidence.

The sensitivity analysis is based on the Group's financial instruments held as at December 31, 2018 and 2017, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P3.3 billion and P1.0 billion for the years ended December 31, 2018 and 2017, respectively. Conversely, if the interest rates decreased by the same percentage, consolidated income before tax would have been lower by the same amount.

### ***31.2 Credit Risk***

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, which include granting loans and receivables to customers and other counterparties, and placing deposits.

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 reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Generally, the Group's credit risk is attributable to trade and other receivable arising mainly from transactions with approved franchisees, installment receivables, rental receivables and other financial assets. The carrying values of these financial assets subject to credit risk are disclosed in Note 32.

The Group maintains defined credit policies and 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 on customers and other counterparties are obtained and used. Franchisees are subject to stringent financial, credit and legal verification process. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant portion of sales, advance payments are received to mitigate credit risk.

With respect to credit risk arising from the other financial assets of the Group, composed of cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 per depositor per banking institution.

Trade and other receivables that are past due but not impaired are as follows:

	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]
Not more than 30 days	<b>P 6,168,427,517</b>	P 3,281,824,814
31 to 60 days	<b>2,118,222,699</b>	1,625,373,515
Over 60 days	<b><u>1,774,318,897</u></b>	<u>880,970,361</u>
	<b><u>P 10,060,969,113</u></b>	<u>P 5,788,168,690</u>

### ***31.3 Liquidity Risk***

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, bonds, and preferred shares.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. 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. In addition, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues.

As at December 31, 2018, the Group's financial liabilities 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>	<u>Later than 5 Years</u>
Trade and other payables	P 39,230,499,206	P 6,800,895,953	P -	P -
Interest-bearing loans	13,494,324,190	12,449,456,918	143,683,341,001	3,307,547,673
Bonds payable	-	1,202,612,500	30,032,563,750	-
ELS	-	-	5,402,665,931	-
Advances from related parties	-	-	2,385,463,118	-
Redeemable preferred shares	-	268,957,813	772,152,973	1,574,159,348
Guaranty deposits	-	-	153,529,825	208,423,557
Derivative liabilities	393,300,753	-	-	-
Other liabilities	-	1,171,355,329	4,305,304,967	101,279,537
	<b><u>P 53,118,124,149</u></b>	<b><u>P 21,893,278,513</u></b>	<b><u>P 186,735,021,565</u></b>	<b><u>P 5,191,410,115</u></b>

As at December 31, 2017, the Group's financial liabilities have contractual maturities which are presented below.

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later than 5 Years
Trade and other payables	P 31,258,910,773	P 5,435,756,792	P -	P -
Interest-bearing loans	24,704,119,789	10,276,295,553	112,904,905,599	2,484,095,007
Bonds payable	10,533,444,945	548,844,946	4,691,407,500	25,709,595,938
ELS	-	-	5,525,331,862	-
Advances from related parties	-	-	2,329,974,989	-
Redeemable preferred shares	-	251,597,580	1,006,390,320	1,574,159,348
Guaranty deposits	-	-	129,185,721	256,772,125
Derivative liabilities	353,967,287	-	-	-
Other liabilities	-	844,830,196	3,480,775,781	102,476,359
	<u>P 66,850,442,794</u>	<u>P 17,357,325,067</u>	<u>P 130,067,971,772</u>	<u>P 30,127,098,777</u>

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

### 31.4 Other Price Risk Sensitivity

The Group's market price risk arises from its investments carried at fair value (financial assets classified as financial assets at FVOCI in 2018 and AFS financial assets in 2017). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Group's investments held at fair value and their impact on the equity as at December 31, 2018 and 2017 are summarized as follows:

	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
2018 - Investment in equity securities	+35.39%	-35.39%	P 48,923,706	(P 48,923,706)
2017 - Investment in equity securities	+23.39%	-23.39%	P 32,014,364	(P 32,014,364)

The maximum additional estimated loss in 2018 and 2017 is to the extent of the carrying value of the securities held as of these reporting dates with all other variables held constant. The estimated change in quoted market price is computed based on volatility of listed companies at the PSE for the past 12 months at 95% confidence level.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Group's favor.

The Group is also exposed to other price risk in respect of its financial instruments at FVTPL which pertain to marketable debt securities, quoted equity securities and derivative financial assets and liabilities arising from foreign exchange margins trading spot and forward. These financial instruments will continue to be measured at fair value based on quoted prices for marketable debt and equity securities, and index reference provided by certain foreign financial institution for derivative financial assets.

## 32. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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	2018		2017		
	Carrying Values	Fair Values	Carrying Values	Fair Values	
<b><i>Financial assets</i></b>					
Financial assets at amortized cost:					
Cash and cash equivalents	5	P 44,779,011,533	P 44,779,011,533	P 52,784,400,162	P 52,784,400,162
Trade and other receivables	6	52,852,435,257	52,829,566,514	48,389,999,883	48,387,974,595
Other financial assets	9	8,365,705,660	8,460,215,641	7,995,540,593	7,917,273,805
		<u>P 105,997,152,450</u>	<u>P 106,068,793,688</u>	<u>P109,169,940,638</u>	<u>P 109,089,648,562</u>
Financial assets at FVTPL:					
Marketable debt and equity securities	7	P 13,190,939,209	13,190,939,209	P 13,496,901,752	P 13,496,901,752
Derivative assets	7	426,485,938	426,485,938	19,572,259	19,572,259
		<u>P 13,617,425,147</u>	<u>P 13,617,425,147</u>	<u>P 13,516,474,011</u>	<u>P 13,516,474,011</u>
Financial assets at FVOCI –					
Equity securities	11	P 459,974,884	P 459,974,884	P -	P -
AFS financial assets –					
Equity securities	11	P -	P -	P 431,645,289	P 431,645,289
<b><i>Financial liabilities</i></b>					
Financial liabilities at FVTPL –					
Derivative liabilities	20	P 393,300,753	P 393,300,753	P 353,967,287	P 353,967,287
Financial liabilities at amortized cost:					
Current:					
Trade and other payables	16	P 46,031,395,159	P 46,031,395,159	P 36,694,667,565	P 36,694,667,565
Interest-bearing loans	17	24,530,016,698	24,137,908,859	32,700,476,157	31,231,836,633
Bonds payable	18	-	-	9,976,270,876	9,041,946,581
Redeemable preferred shares	19	251,597,580	251,597,580	251,597,580	251,597,580
Commission payable		1,165,040,058	1,165,040,058	839,455,530	839,455,530
		<u>P 71,978,049,495</u>	<u>P 71,585,941,656</u>	<u>P 80,462,467,708</u>	<u>P 78,059,503,889</u>
Non-current:					
Bonds payable	18	P 25,102,042,365	P 23,366,702,221	P 24,388,714,176	P 22,104,597,349
Interest-bearing loans	17	142,871,936,606	136,250,437,900	108,273,087,030	106,474,669,684
ELS	20	5,258,801,592	5,258,801,592	5,227,114,518	5,227,114,518
Redeemable preferred shares	19	1,712,264,245	1,840,140,016	1,857,022,803	2,238,796,221
Due to related parties	29	2,385,463,118	2,385,463,118	2,329,974,989	2,329,974,989
Retention payable		4,063,944,817	3,945,330,030	3,289,556,628	3,167,584,654
Security deposits	20	578,726,149	502,057,696	479,521,165	424,639,796
Accrued rent		116,455,980	122,771,251	117,832,141	100,586,242
		<u>P 182,089,634,872</u>	<u>P 173,671,703,824</u>	<u>P145,962,823,450</u>	<u>P142,067,963,453</u>

See Notes 2.4 and 2.13 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 31.

## 33. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 33.1 Fair Value Hierarchy

The hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- 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 resource or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the 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 of Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### 33.2 Financial Instruments Measurements at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as at December 31, 2018 and 2017.

	2018			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets at FVTPL –				
Debt and equity securities	P 13,190,939,209	P -	P -	P 13,190,939,209
Derivative asset	-	426,485,938	-	426,485,938
Financial assets at FVOCI –				
Equity securities	138,241,610	103,200,000	218,533,274	459,974,884
	<b><u>P 13,329,180,819</u></b>	<b><u>P 529,685,938</u></b>	<b><u>P 218,533,274</u></b>	<b><u>P 14,077,400,031</u></b>
<b>Financial liabilities:</b>				
Financial liability at FVTPL –				
Derivative liabilities	<b><u>P -</u></b>	<b><u>P 393,300,753</u></b>	<b><u>P -</u></b>	<b><u>P 393,300,753</u></b>
	2017			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets at FVTPL –				
Debt and equity securities	P 13,496,901,752	P -	P -	P 13,496,901,752
Derivative asset	-	19,572,259	-	19,572,259
AFS financial assets –				
Equity securities	136,872,015	78,200,000	216,573,274	431,645,289
	<b><u>P 13,633,773,767</u></b>	<b><u>P 97,772,259</u></b>	<b><u>P 216,573,274</u></b>	<b><u>P 13,948,119,300</u></b>
<b>Financial liabilities:</b>				
Financial liability at FVTPL –				
Derivative liabilities	<b><u>P -</u></b>	<b><u>P 353,967,287</u></b>	<b><u>P -</u></b>	<b><u>P 353,967,287</u></b>

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

Described below are the information about how the fair values of the Company's classes of financial assets are determined.

(a) *Equity Securities*

As at December 31, 2018 and 2017, instruments included in Level 1 comprise equity securities classified as financial assets at FVTPL or AFS financial assets. These securities were valued based on their market prices quoted in various stock exchanges at the end of each reporting period.

Golf club shares classified as financial assets at FVOCI in 2018 and AFS financial assets in 2017 are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, equity security held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management to consider the differences in corporate profile and historical performance of the entity.

(b) *Debt Securities*

The fair value of the Group's debt securities which consist of corporate bonds is estimated by reference to quoted bid price in active market (i.e., Stock Exchange) at the end of the reporting period and is categorized within Level 1.

(c) *Derivative Financial Instruments*

The fair value of derivative financial instruments is measured at inputs other than quoted prices that are indirectly observable for the financial instruments and are categorized within Level 2. The fair value is derived from prices set in the derivative contracts.

**33.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed**

The table below and in the succeeding page shows the fair value hierarchy of the Company's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as at December 31, 2018 and 2017.

	2018			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Cash and cash equivalents	P 44,779,011,533	P -	P -	P 44,779,011,533
Trade and other receivables	-	130,921,360	52,698,645,154	52,829,566,514
Other financial assets	<u>3,270,298,083</u>	<u>755,805,022</u>	<u>4,434,112,536</u>	<u>8,460,215,641</u>
	<b><u>P48,049,309,616</u></b>	<b><u>P 886,726,382</u></b>	<b><u>P 57,132,757,690</u></b>	<b><u>P 106,068,793,688</u></b>

		2018			
		Level 1	Level 2	Level 3	Total
<b>Financial liabilities:</b>					
Current:					
Trade and other payables	P	-	P	-	P 46,031,395,159
Interest-bearing loans		-	392,840,499	23,745,068,360	24,137,908,859
Bonds payable		-	-	-	-
Redeemable preferred shares		-	-	251,597,580	251,597,580
Commission payable		-	-	1,165,040,058	1,165,040,058
Non-current:					
Bonds payable		23,366,702,221	-	-	23,366,702,221
Interest-bearing loans		-	339,391,430	135,911,046,470	136,250,437,900
ELS		-	-	5,258,801,592	5,258,801,592
Redeemable preferred shares		-	1,085,347,276	754,792,740	1,840,140,016
Due to related parties		-	-	2,385,463,118	2,385,463,118
Retention payable		-	-	3,945,330,030	3,945,330,030
Security deposits		-	313,467,160	188,590,536	502,057,696
Accrued rent		-	122,771,251	-	122,771,251
		<u>P 23,366,702,221</u>	<u>P 2,253,817,616</u>	<u>P219,637,125,643</u>	<u>P 245,257,645,480</u>
2017 [As Restated – see Note 2.1(c)]					
		Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>					
Cash and cash equivalents	P	52,784,400,162	P	-	P 52,784,400,162
Trade and other receivables		-	169,231,906	48,218,742,689	48,387,974,595
Other financial assets		3,174,995,415	507,220,833	4,235,057,557	7,917,273,805
		<u>P 55,959,395,577</u>	<u>P 676,452,739</u>	<u>P 52,453,800,246</u>	<u>P 109,089,648,562</u>
<b>Financial liabilities:</b>					
Current:					
Trade and other payables	P	-	P	-	P 36,694,667,525
Interest-bearing loans		-	387,203,538	30,844,633,095	31,231,836,633
Bonds payable		9,041,946,581	-	-	9,041,946,581
Redeemable preferred shares		-	-	251,597,580	251,597,580
Other current liabilities		-	-	839,455,530	839,455,530
Non-current:					
Bonds payable		22,104,597,349	-	-	22,104,597,349
Interest-bearing loans		-	757,977,570	105,716,692,114	106,474,669,684
ELS		-	-	5,227,114,518	5,227,114,518
Redeemable preferred shares		-	1,232,405,901	1,006,390,320	2,238,796,221
Due to related parties		-	-	2,329,974,989	2,329,974,989
Retention payable		-	-	3,167,584,654	3,167,584,654
Security deposits		-	267,734,123	156,905,673	424,639,796
Accrued rent		-	100,586,242	-	100,586,242
		<u>P 31,146,543,930</u>	<u>P 2,745,907,374</u>	<u>P186,235,016,038</u>	<u>P 220,127,467,342</u>

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### ***33.4 Investment Property Measured at Cost for which Fair Value is Disclosed***

The fair value of the Group's investment properties earning rental income was determined through discounted cash flows valuation technique. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

The Group determines the fair value of idle properties through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adjusted for specific market factors such as location and condition of the property.

As at December 31, 2018 and 2017, the fair value of the Group's investment property amounted to P352.5 billion and P310.1 billion, respectively (see Note 14) and is classified within Level 3 of the fair value hierarchy. The Level 3 fair value of the investment property was determined using the income approach which is performed with values derived using a discounted cash flow model. The income approach uses future free cash flow projections and discounts them to arrive at a present value. The discount rate is based on the level of risk of the business opportunity and costs of capital. The most significant inputs into this valuation approach are the estimated annual cash inflow and outgoing expenses, anticipated increase in market rental, discount rate and terminal capitalization rate.

Also, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

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

The Group's capital management objective is to ensure its ability to continue as a going concern; to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and to maintain strong and healthy financial position to support its current business operations and drive its expansion and growth in the future.

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 sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. 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.

It monitors capital using the debt-to-equity ratio as shown below.

	<u>2018</u>	2017 [As Restated – see Note 2.1(c)]
Total liabilities	<b>P 297,678,531,269</b>	P 261,339,069,586
Total equity	<u><b>290,572,663,459</b></u>	<u>274,273,081,861</u>
Debt-to-equity ratio	<u><b>1.02:1</b></u>	<u>0.95:1</u>

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for both periods.

### 35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation of liabilities arising from financing activities in 2018 and 2017 is presented below and in the succeeding page. The details of net cash flows are presented in the consolidated statements of cash flows.

	<u>Interest-bearing Loans and Borrowings</u>	<u>Bonds Payable</u>	<u>Derivative Liabilities</u>	<u>ELS</u>	<u>Redeemable Preferred Shares</u>	<u>Total</u>
Balance as of January 1, 2018	P 140,973,563,187	P 34,364,985,052	P 109,913,612	P 5,227,114,518	P 2,108,620,383	P 182,784,196,752
Cash flows from financing activities:						
Borrowings availed	59,942,342,396	-	-	-	-	59,942,342,396
Payment of borrowings	( 36,010,504,182)	( 10,425,600,000)	-	-	-	( 46,436,104,182)
Redemption of preferred shares	-	-	-	-	( 251,597,580)	( 251,597,580)
Non-cash activities:						
Foreign currency adjustment	2,421,252,088	1,139,294,915	-	-	-	3,560,547,003
Additions due to consolidation of new subsidiaries	575,802	-	-	-	-	575,802
Amortization of direct cost	74,724,013	23,362,398	-	31,687,074	-	129,773,485
Reversal of unrealized loss on cash flow hedges	-	-	( 109,913,612)	-	-	( 109,913,612)
Accretion of redeemable preferred shares	-	-	-	-	106,839,022	106,839,022
Balance at December 31, 2018	<b><u>P 167,401,953,304</u></b>	<b><u>P 25,102,042,365</u></b>	<b><u>P -</u></b>	<b><u>P 5,258,801,592</u></b>	<b><u>P 1,963,861,825</u></b>	<b><u>P 199,726,659,086</u></b>

	<b>Interest-bearing Loans and Borrowings</b>	<b>Bonds Payable</b>	<b>Derivative Liabilities</b>	<b>ELS</b>	<b>Redeemable Preferred Shares</b>	<b>Total</b>
Balance as of January 1, 2017	P 76,595,874,025	P 62,065,580,277	P 327,939,175	P 5,262,906,379	P 2,013,695,292	P 146,265,995,148
Cash flows from financing activities:						
Borrowings availed	86,287,218,583	11,943,791,282	-	-	-	98,231,009,865
Payment of borrowings	( 21,732,549,674)	( 40,595,136,549)	( 361,328,019)	-	-	( 62,689,014,242)
Non-cash activities:						
Foreign currency adjustment	( 253,138,621)	806,309,336	70,123,940	-	-	623,294,655
Amortization of direct cost	76,158,874	144,440,706	-	100,359,525	-	320,959,105
Recognition of conversion option	-	-	-	( 136,151,386)	-	( 136,151,386)
Unrealized loss on swaps	-	-	27,235,637	-	-	27,235,637
Unrealized loss on cash flow hedges	-	-	45,942,879	-	-	45,942,879
Accretion of redeemable preferred shares	-	-	-	-	94,925,091	94,925,091
Balance at December 31, 2017	<u>P 140,973,563,187</u>	<u>P 34,364,985,052</u>	<u>P 109,913,612</u>	<u>P 5,227,114,518</u>	<u>P 2,108,620,383</u>	<u>P 182,784,196,752</u>

**36. SUBSEQUENT EVENTS**

On February 20, 2019, Republic Act No. 11232, *Revised Corporation Code of the Philippines* (Code), was signed into law. Among the amendments, the removal of the 50-year limitation to corporate term for stock corporations is deemed to be the most relevant to the Group. The management deemed further that other amendments and new provisions contained in the revised Code are not material to the Group.





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**Grant Thornton**

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**Report of Independent Auditors  
to Accompany Supplementary  
Information Required by the  
Securities and Exchange  
Commission Filed Separately  
from the Basic Consolidated  
Financial Statements**

**The Board of Directors and the Stockholders  
Alliance Global Group, Inc. and Subsidiaries**  
7<sup>th</sup> Floor, 1880 Eastwood Avenue  
Eastwood City CyberPark  
188 E. Rodriguez, Jr. Avenue  
Bagumbayan, Quezon City

**Punongbayan & Araullo**  
20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

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We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alliance Global Group, Inc. and subsidiaries (the Group) for the year ended December 31, 2018, on which we have rendered our report dated April 12, 2019. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68 as amended, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By: **Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 7333697, January 3, 2019, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-3 (until Nov. 29, 2019)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 12, 2019

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
**LIST OF SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2018**

**Independent Auditors' Report on the SEC Supplementary Schedules  
Filed Separately from the Basic Financial Statements**

**Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68**

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Alliance Global Group, Inc. and Subsidiaries  
Schedule A - Financial Assets (Marketable Securities)  
December 31, 2018

Financial Asset/Name of Banks	Amount Shown in Statement of Financial Position	Income Received and Accrued
<b>Financial Assets at Fair Value Through Profit or Loss</b>		
HSBC Private Bank	P 12,575,566,716	P 40,068,000
Bank of Singapore	615,372,493	673,839
Derivative financial assets	426,485,938	-
	<u>13,617,425,147</u>	<u>40,741,839</u>
<b>Financial Assets at Fair Value Through Other Comprehensive Income</b>		
Various unquoted equity instruments	218,533,274	3,124
Various quoted equity instruments	138,241,610	-
Various club shares	103,200,000	25,000,000
	<u>459,974,884</u>	<u>25,003,124</u>
<b>Total Financial Assets</b>	<b><u>P 14,077,400,031</u></b>	<b><u>P 65,744,963</u></b>

Alliance Global Group, Inc. and Subsidiaries  
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)  
December 31, 2018

<i>Name and Designation of Debtor</i>			<i>Deductions</i>		<i>Ending Balance</i>							
			<i>Amounts Collected</i>	<i>Impairment</i>	<i>Current</i>	<i>Balance at the End of Period</i>						
<i>Balance at the Beginning of Period</i>		<i>Additions</i>										
<b>Advances to Officers and Employees:</b>												
Travellers - Officers and employees	P	69,692,372	P	9,059,203	P	-	P	-	P	78,751,575	P	78,751,575
- Other related parties		55,070,973		14,046,433		5,100,382		9,340,816		54,676,208		54,676,208
Megaworld - Officers and employees		5,905,488		1,222,986		2,630,783		-		4,497,691		4,497,691
Emperador - Officers and employees		37,636,599		43,771,298		40,645,514		-		40,762,383		40,762,383
GADC - Officers and employees		81,158,670		-		63,570,885		-		17,587,785		17,587,785
- Other related parties		-		132,000,000		-		-		132,000,000		132,000,000
	<b>P</b>	<b>249,464,102</b>	<b>P</b>	<b>200,099,920</b>	<b>P</b>	<b>111,947,564</b>	<b>P</b>	<b>9,340,816</b>	<b>P</b>	<b>328,275,642</b>	<b>P</b>	<b>328,275,642</b>

**Legend:**

Megaworld - Megaworld Corporation  
Travellers - Travellers International Hotel Group, Inc.  
Emperador - Emperador Inc.  
GADC - Golden Arches Development Corporation

Alliance Global Group, Inc. and Subsidiaries  
Schedule C - Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements  
December 31, 2018

<i>Name and Designation of Debtor</i>			<i>Deductions</i>		<i>Ending Balance</i>		<i>Balance at End of Period</i>			
			<i>Amounts Collected</i>	<i>Amounts Written off</i>	<i>Current</i>	<i>Not current</i>				
<b><i>Due from Related Parties</i></b>										
New Town Land Partners, Inc.	P	3,024,403,740	P	-	P	130,000,000	p	-	P	2,894,403,740
Venezia Universal, Ltd.		1,685,297,956		3,133,308,422		-		-		4,818,606,378
Greenspring Investment Holdings Properties Ltd.		2,938,668,803		936,030,405		-		-		3,874,699,208
First Centro, Inc.		3,200,000		-		-		-		3,200,000
Alliance Global Brands, Inc.		626,572,744		-		223,017,136		-		403,555,608
Alliance Global Group Cayman Islands, Inc.		828,749,050		-		812,502,500		-		16,246,550
McKester Pik-nik International Limited		22,836,703,568		-		4,815,196,105		-		18,021,507,463
ProGreen AgriCorp, Inc.		250,000,000		-		250,000,000		-		-
Empire East Land Holdings Inc.		500,000,000		-		50,000,000		-		450,000,000
Travellers International Hotel Group, Inc.		-		3,366,550,956		-		-		3,366,550,956

Alliance Global Group, Inc. and Subsidiaries  
Schedule D - Intangible Assets - Other Assets  
December 31, 2018

<i>Description</i>	<i>Beginning Balance</i>	<i>Additions at Cost</i>	<i>Deduction</i>		<i>Other Changes - Additions (Disposals)</i>	<i>Ending Balance</i>
			<i>Charged to Cost and Expenses</i>	<i>Charged to Other Accounts</i>		
<b>Intangible Assets</b>						
Goodwill	P 20,090,166,886	P -	P -	P -	P 111,415,506	P 20,201,582,392
Trademarks	20,516,620,680	-	( 2,240,391 )	-	226,808,712	20,741,189,001
Leasehold Rights	958,793,091	-	( 58,336,971 )	-	-	900,456,120
Computer Software	18,510,761	-	( 7,502,276 )	-	( 25,000 )	10,983,485
Franchise Fee	53,567,853	60,060,430	( 9,258,680 )	-	-	104,369,603
	<u>P 41,637,659,271</u>	<u>P 60,060,430</u>	<u>( P 77,338,318 )</u>	<u>P -</u>	<u>P 338,199,218</u>	<u>P 41,958,580,601</u>

Alliance Global Group, Inc. and Subsidiaries  
Schedule E - Long-Term Debt  
December 31, 2018

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Statement of Financial Position	Amount Shown Under Caption "Long-Term Debt" in Related Statement of Financial Position	
<b>Loans:</b>				
Interest-bearing loans	P 99,116,517,084	P 19,751,608,030	P 79,364,909,054	a, b, c, d, e, f, g, i, j, n, o
Foreign borrowings:				
AG Cayman	\$ 700,000,000	-	36,620,635,992	p
Emperador	€ 370,000,000	-	22,310,991,675	h
Emperador	€ 87,933,064	726,961,883	4,575,399,885	l, m
Emperador	£ 60,469,355	4,051,446,785	-	k
		<u>24,530,016,698</u>	<u>142,871,936,606</u>	
<b>Bonds Payable:</b>				
<b>Issuer:</b>				
Megaworld	P 11,957,843,462	-	11,957,843,462	q
Megaworld	\$ 250,000,000	-	13,144,198,903	r
		<u>-</u>	<u>25,102,042,365</u>	
		<b>P 24,530,016,698</b>	<b>P 156,016,135,509</b>	

**a** Interest-bearing loans include loans obtained by Megaworld pertaining to the following:

- 1.) Seven-year loan obtained by Megaworld from a local bank in two tranches in March and June 2015 to fund various real estate projects and retire currently maturing obligations. Quarterly principal repayment on this seven-year loan commenced in June 2016 and interest is paid quarterly.
- 2.) Five-year foreign-currency-denominated loan obtained by Megaworld from a local bank in December 2017 amounting to U.S. \$98.87 million payable quarterly with a grace period of one year upon availment. The principal repayment shall commence in March 2019 and a floating interest is paid quarterly. Megaworld entered into a cross-currency swap transaction to hedge the U.S. dollar exposure of the loans.
- 3.) Five-year loan obtained by Megaworld from a local bank in December 2018. The principal repayment is quarterly after two years from availment. Interest is payable quarterly.
- 4.) Three-year loan obtained by Megaworld from a local bank in December 2018. The principal repayments shall commence on September 2019 and interest is paid quarterly.
- 5.) Three-year loan obtained by Megaworld from a local bank in July 2018. The principal is payable upon maturity while interest is payable quarterly and commenced in October 2018.
- 6.) Five-year loan obtained by Megaworld from a local bank in November 2016. The principal repayments commenced in February 2018 and interest is paid quarterly.
- 7.) Seven-year loan obtained by Megaworld from a local bank in November 2015. The principal repayments commenced in November 2016 and interest is payable semi-annually.
- 8.) Five-year loan obtained by Megaworld from a local bank in December 2015. The principal repayments commenced in March 2017 and interest is paid quarterly.
- 9.) Seven-year loan obtained by Megaworld from a local bank in 2014. The principal repayments commenced in August 2015 while interest is paid semi-annually.
- 10.) Five-year loan obtained by Megaworld in August 2016 from a local bank with a grace period of two years from availment. The principal repayment commenced in November 2018 and interest is paid quarterly.

**b** Interest-bearing loans include loans obtained by EELHI pertaining to the following:

- 1.) Seven-year loan obtained by EELHI in 2015 from a local bank released in three tranches from 2015-2016. Proceeds were used to fund development of various real estate projects.
- 2.) Three-year loan obtained by EELHI from a local bank in February 2018 where the proceeds of the loan were used to fund various real estate projects. The principal is payable upon maturity and interest is payable monthly in arrears.
- 3.) Loan obtained by EELHI in December 2017 from a local bank used to fund the development of various real estate projects. Principal is payable upon maturity and interest is payable monthly in arrears. Both principal and interest were fully settled in 2018.

**Alliance Global Group, Inc. and Subsidiaries**  
**Schedule E - Long-Term Debt (continuation)**  
**December 31, 2018**

- 4.) Loans obtained by EELHI from local banks by assigning trade receivables on a with recourse basis. The loans are secured by certain residential and condominium units for sale with carrying value of P117.7 million and P110.7 million as of December 31, 2018 and 2017, respectively.
- c Five-year loan obtained by LFI from a local bank in December 2015. Quarterly installments began in March 2017, plus interest.
- d Interest-bearing loans obtained by SPI include the following:
- 1.) Five-year loan obtained by SPI from a local bank in 2018 to fund the acquisition of STLJ. Principal repayment is payable on a monthly basis after a grace period of three years from the date of availment.
  - 2.) Five-year loan obtained by SPI from a local bank in 2017 and 2016, payable on a monthly basis after a grace period of two years from the date of availment. The loan bears floating interest which is subject to repricing every 30-180 days.
  - 3.) Five-year loan obtained by SPI from a local bank in 2015, payable in monthly installments after two years from drawdown.
  - 4.) Three-year loan obtained by SPI from a local bank in 2018. The principal repayment is payable on a monthly basis after a grace period of two years from date of availment.
  - 5.) Five-year loan obtained by SPI from a local bank. Quarterly repayment of the loan began in 2017. In 2018, SPI pre-terminated the loan.
  - 6.) Outstanding balance of short-term loans availed by SPI from local banks in 2017 and 2016. In 2018, SPI obtained another short-term loan from a local bank payable in six months from date of availment.
  - 7.) Loans obtained by SPI from a local bank in 2015 through assignment of trade receivables. The loans are being paid as the receivables are collected.
- e Interest-bearing loans obtained by GERI include the following:
- 1.) Five-year loan availed by GERI in 2017 from a local bank payable quarterly commencing on the beginning of the fifth quarter from the initial drawdown date.
  - 2.) Five-year loan obtained by GERI from a local bank in 2016, with a grace period of two years on principal installment. The loan is payable in quarterly installments of P125.0 million commencing on the 9th quarter from the date of initial drawdown and balloon payment at the end of five years.
  - 3.) Five-year loan obtained by GERI in 2015 from a local bank payable quarterly commencing on the 9th quarter from the date of initial drawdown.
- f Five-year loan obtained by OFPI from a local bank in 2015.
- g In 2018, SWEC renewed its credit line facility with a local bank amounting to P150.0 million, which shall be used for working capital purposes. In December 2018, SWEC's initial loan drawdown amounted to P50.0 million, payable within 180 days.
- h Five-year foreign-currency-denominated loan obtained by EIL in 2016 from international financial institutions to refinance its maturing loan.
- i Five-year loan obtained by EDI in three tranches totaling P2.0 billion in 2016 from a local bank. Principal repayment is in 12 equal quarterly payments starting on the ninth quarter after the initial drawdown.
- j In 2018, EDI obtained additional unsecured, interest-bearing loans at a total amount of P850.0 million from a local bank for working capital purposes. The loans shall be payable in 12 equal quarterly amortizations commencing on the beginning of the ninth quarter from the initial drawdown. The principal repayments are expected to commence on April 10, 2019.
- k Foreign-currency-denominated loan obtained by WMG from a foreign bank. The loan is secured by way of floating charge against WMG's inventories.
- l Foreign-currency-denominated loans of DBLC totaling P3.0 billion used in relation to asset acquisition in 2017.
- m Five-year foreign-currency-denominated loan obtained by GES in 2017 from certain financial institution for asset acquisition. The loan has two-year grace period with principal repayment starting on the 24th month after the date of the loan.
- n Interest-bearing loans obtained by GADC include the following:
- 1.) Loans obtained by GADC from local banks in 2014 payable in 21 quarterly principal payments commencing in September 2016.



Alliance Global Group, Inc. and Subsidiaries  
Schedule E - Long-Term Debt (continuation)  
December 31, 2018

- 2.) Loans drawn by G.ADC from a P1.0 billion local bank credit facility in 2012 and 2013. Principal is payable in 21 quarterly instalments starting December 2014 up to September 2019.
  - 3.) Loan obtained by G.ADC from a local bank in June 2015 in relation to the P500.0 million loan facility. Principal repayments began in June 2016 for 21 quarters.
  - 4.) Ten-year loan granted to G.ADC in December 2011 by a local bank for the purchase of land and building from the latter, payable monthly starting on the third year of the loan until December 2021. The acquired land and building served as collateral on the loan.
  - 5.) Short-term loans obtained by G.ADC from a local bank in 2018 payable in 6 equal monthly installments.
- o Interest-bearing loans also include loans obtained by Travellers which includes the following:
- 1.) Loans drawn by Travellers from approved credit lines with a local bank of up to P10.0 billion and P21.0 billion in 2018 and 2017, respectively. Travellers made drawdowns amounting to P8.5 billion in 2018 and P13.0 billion in 2017 from such credit lines. In 2018, the P13.0 billion short-term loan was converted to a long-term loan on its maturity date and was increased to P15.0 billion. The long-term loans are payable in seven years.
  - 2.) Seven-year loans obtained by Travellers in 2017 from the credit line agreements with certain local banks for the support of its expansion projects. Principal payments shall be made in lump sum upon maturity and interest is payable quarterly.
  - 3.) In 2017, Travellers entered into various credit line agreements with a total maximum loanable amount of P11.5 billion from a local bank. As of December 31, 2017, drawdowns totaling to P8.0 billion were made related to these facilities. In 2018 and 2017, Travellers settled portions of these loans. The remaining outstanding balance as of December 31, 2018 and 2017 related to these drawdowns amounted to P5.0 billion.  
  
*Also with the same bank, Travellers obtained other various short-term loans in 2018 and 2017. As of December 31, 2018 and 2017, the outstanding omnibus loans from this bank amounted to P5.0 billion and P2.5 billion, respectively.*
  - 4.) In 2018, the Travellers obtained a credit line of P4.0 billion from a local bank. Travellers loaned the maximum amount from such facility during the year and remains outstanding as of December 31, 2018. In 2017, Travellers obtained an omnibus loan from the same bank amounting to P1.0 billion, which was settled in 2018.
  - 5.) Omnibus loans obtained by Travellers from other local banks in 2018 and 2017, of which, the unpaid balance amounted to P1.0 billion and P3.0 billion as of December 31, 2018 and 2017, respectively.
- p Five-year U.S. dollar-denominated loans obtained by AG Cayman in 2017 from a foreign bank totaling to US\$700.0 million with interest payable semi-annually in arrears. The loans are unconditionally and irrevocably guaranteed by AGI.
- q On March 28, 2017, Megaworld issued seven-year term bonds totaling P12.0 billion inclusive of P4.0 billion oversubscription. The bond carries a coupon rate of 5.3535% per annum and interest is payable semi-annually in arrears every March 28 and September 28. The bonds shall mature on March 28, 2024.
- r On April 17, 2013, Megaworld issued 10-year term bond that carries a coupon rate of 4.25% per annum and with semi-annual interest payments every April 17 and October 17. The proceeds of the bond issuance are being used by Megaworld for general corporate purposes.

**Legend:**

AGI - Alliance Global Group, Inc.  
Megaworld - Megaworld Corporation  
EELHI - Empire East Land Holdings, Inc.  
LFI - La Fuerza, Inc.  
SPI - Suntrust Properties, Inc.  
GERI - Global-Estates Resorts, Inc.  
OFPI - Oceanfront Properties, Inc.  
SWEC - Southwoods Ecocentrum Corp.  
EIL - Emperador International Ltd.  
EDI - Emperador Distillers, Inc.  
WMG - Whyte and Mackay Group Limited  
GES - Grupo Emperador Spain, S.A.U.  
CBSP - Complejo Bodeguero San Patricio, S.L.U.  
DBLC - Domecq Bodega Las Copas, S.L.  
GADC - Golden Arches Development Corporation  
Travellers - Travellers International Hotel Group, Inc.  
AG Cayman - Alliance Global Group Cayman Islands, Inc.

Alliance Global Group, Inc. and Subsidiaries  
Schedule F - Indebtedness to Related Parties (Long-Term Loans from Related Companies)  
December 31, 2018

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Balance at the beginning of year</i>	<i>Balance at the end</i>
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-nothing to report-

Alliance Global Group, Inc. and Subsidiaries  
 Schedule G - Guarantees of Securities of Other Issuers  
 December 31, 2018

<i>Name of Issuing Entity of Securities Guaranteed by the Company for which this statement is Filed</i>	<i>Title of Issue of Each Class of Securities Guaranteed</i>	<i>Total Amount Guaranteed and Outstanding</i>	<i>Amount Owned by Person for which this Statement is Filed</i>	<i>Nature of Guarantee</i>
Alliance Global Group Cayman Islands, Inc. by Alliance Global Group, Inc.	US\$ 700.0 million, 5-year loans, 3.8330% to 4.1456% interest	P                    36,620,635,992	P                    36,620,635,992	Guarantee of Principal and Interest

Alliance Global Group, Inc. and Subsidiaries  
Schedule H - Capital Stock  
December 31, 2018

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Common shares - P1 par value	12,950,000,000	10,037,427,579	105,600,000	5,935,072,232	68,690,940	4,033,664,407

**ALLIANCE GLOBAL GROUP, INC.**  
**7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark,**  
**188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City**

**SCHEDULE I - Reconciliation of Parent Company Retained Earnings**  
**Available for Dividend Declaration**  
**For the Year Ended December 31, 2018**

Unappropriated Retained Earnings at Beginning of Year	P	17,748,090,763
Retained Earnings Restricted for Treasury Shares*	(	<u>629,988,966</u> )
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted		17,118,101,797
Net income per Audited Financial Statements		3,139,788,652
Non-actual/unrealized income		
Fair value gain on financial assets at fair value through profit or loss	(	<u>4,710,316</u> )
		3,135,078,336
<b>Other Transactions During the Year</b>		
Dividends declared	(	1,003,742,758)
Acquisition of treasury shares*	(	<u>2,564,518,469</u> )
	(	<u>3,568,261,227</u> )
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	<b>P</b>	<b><u>16,684,918,906</u></b>

\*In 2017, the Company entered into a two-year share repurchase program of up to P5.0 billion worth of common shares.

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE J - FINANCIAL SOUNDNESS INDICATORS**  
**DECEMBER 31, 2018 and 2017**

	12/31/18	12/31/17 (As Restated)
Current ratio	3.00	2.58
Quick ratio	1.29	1.19
Liabilities-to-equity ratio	1.02	0.95
Interest-bearing debt to total equity	0.68	0.66
Asset-to-equity ratio	2.02	1.95
Interest rate coverage ratio	844%	625%
Net profit margin	15.10%	16.05%
Return on assets	4.02%	4.16%
Return on equity/investment	8.15%	8.12%
Return on investment of equity owners	8.78%	9.25%

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.

Current ratio - computed as current assets divided by current liabilities

Quick ratio - computed as cash, marketable securities, accounts receivable divided by current liabilities.

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.

Liabilities-to-equity ratio - computed as total liabilities divided by stockholders' equity.

Interest-bearing debt to total equity ratio - computed as interest-bearing debt divided by total equity.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by stockholders' equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments. It is computed as profit before income tax and interest expense (EBIT) divided by interest.

In the computation, non-recurring gain is excluded from EBIT.

**PROFITABILITY RATIOS**

Net margin - computed as net profit divided by revenues

Return on assets - net profit divided by total assets

Return on investment - net profit divided by total stockholders' equity

Return on investment of equity owners - net profit attributable to owners of the parent divided by equity attributable to owners of the parent company

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**

**SCHEDULE K - Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
Financial Reporting Standards Council as of December 31, 2018**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b>		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
<b>Practice Statement Management Commentary</b>			✓	
<i>Philippine Financial Reporting Standards (PFRS)</i>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	✓		
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation* (effective January 1, 2019)			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4, <i>Insurance Contracts</i>			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* (effective January 1, 2019)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* ( <i>effective date deferred indefinitely</i> )	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation* ( <i>effective January 1, 2019</i> )			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases* ( <i>effective January 1, 2019</i> )			✓
PFRS 17	Insurance Contracts* ( <i>effective January 1, 2021</i> )			✓
<b><i>Philippine Accounting Standards (PAS)</i></b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* ( <i>effective January 1, 2019</i> )			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓



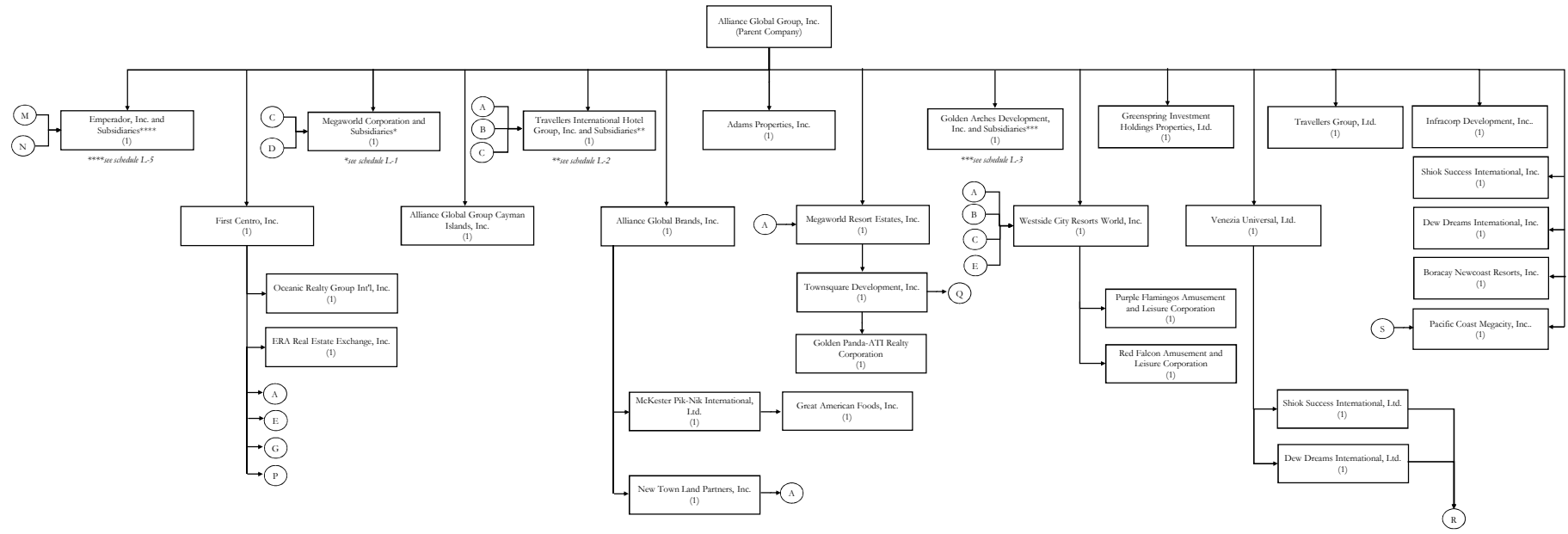
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Amendment to PAS 23: Eligibility for Capitalization	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* ( <i>effective date deferred indefinitely</i> )			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss	✓		
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture* ( <i>effective January 1, 2019</i> )			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
<b>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty Over Income Tax Treatments* (effective <i>January 1, 2019</i> )			✓
<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-32	Intangible Assets - Web Site Costs**			✓

\* These standards will be effective for periods subsequent to 2018 and are not early adopted by the Group.

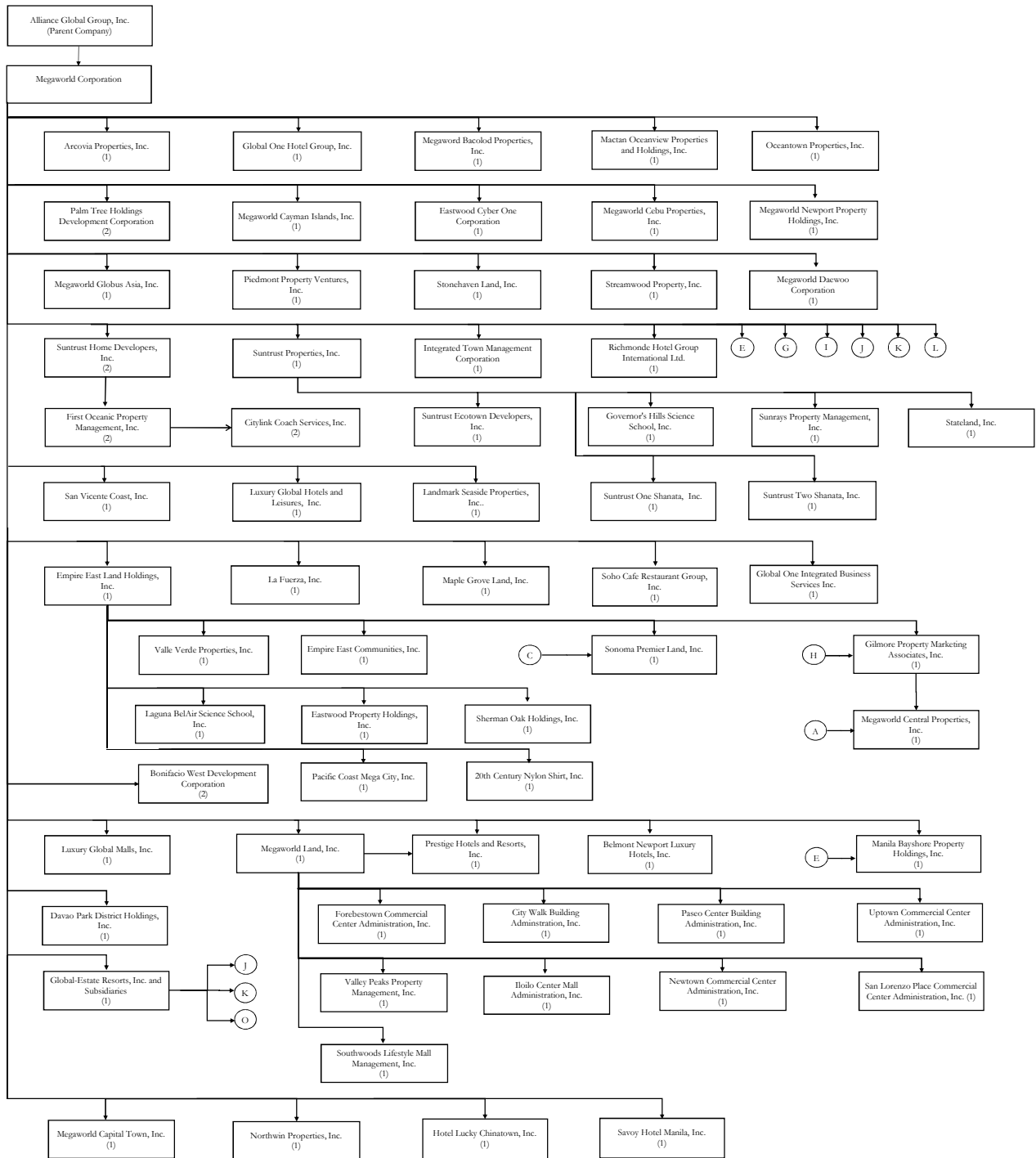
\*\* These standards have been adopted in the preparation of consolidated financial statements but the Group has no significant transactions covered in both years presented.

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
 Schedule L - Map Showing the Relationship Between Alliance Global Group, Inc.  
 and its Related Parties  
 December 31, 2018



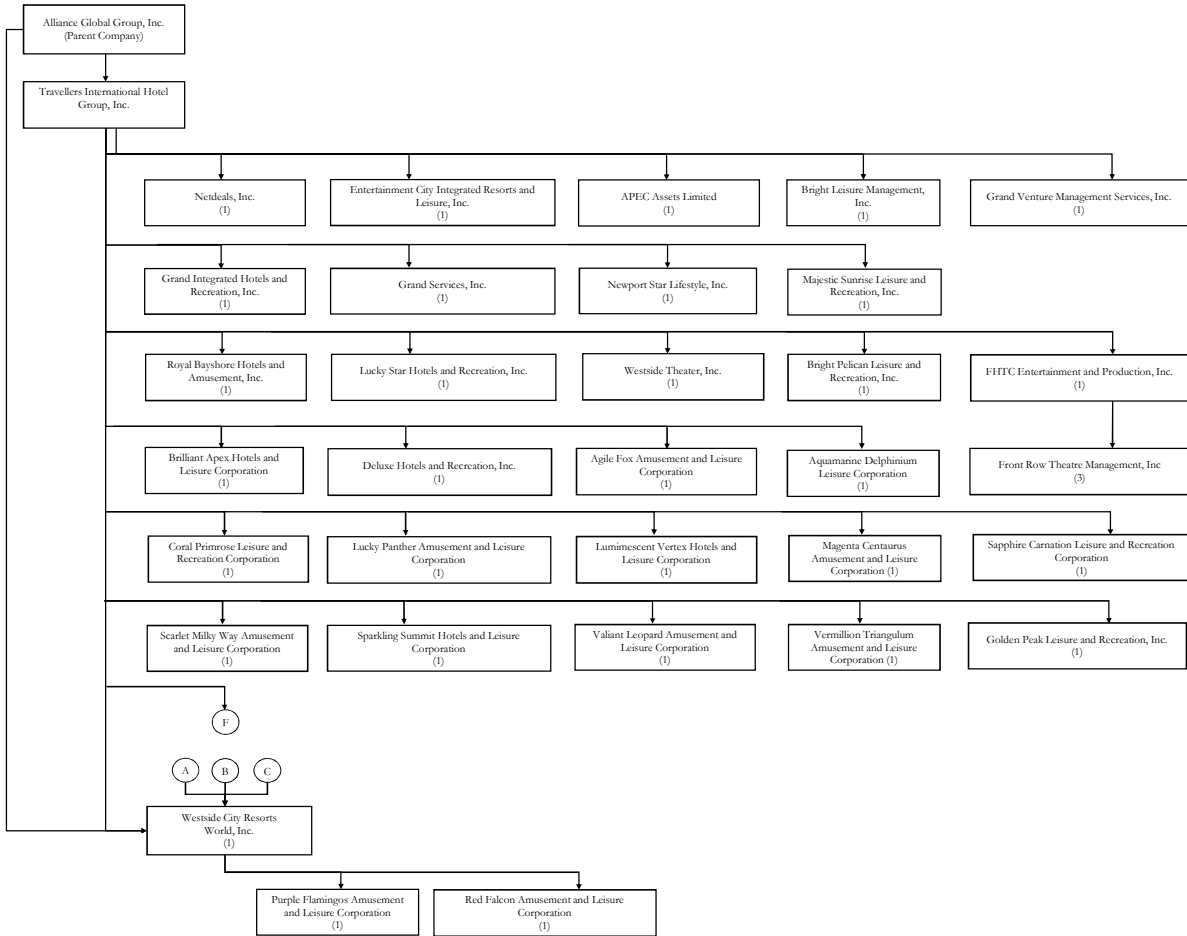
Legend				
(1) Subsidiary	A Megaworld Corporation	F Manila Bayshore Property Holdings, Inc.	K Megaworld Global Estates, Inc.	P Sonoma Premier Land, Inc.
(2) Associate	B Adams Properties, Inc.	G Westside City Resorts World, Inc.	L Megaworld Central Properties, Inc.	Q Gilmore Property Marketing Associates, Inc.
(3) Jointly Controlled Entity	C First Centro, Inc.	H Townsquare Development, Inc.	M Shiook Success International, Ltd.	R Emperor Inc.
	D Newtown Land Partners, Inc.	I Megaworld Resort Estates, Inc.	N Dew Dreams International, Ltd.	S Empire East Land Holdings, Inc.
	E Travellers International Hotel Group, Inc.	J Twin Lakes Corporation		

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
 Schedule L-1 - Map Showing the Relationship Between Alliance Global Group, Inc.  
 and Megaworld Corporation Group  
 December 31, 2018



Legend	
<i>Relationship with Megaworld Corporation</i>	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centco, Inc.
D	Newtown Land Partners, Inc.
E	Travellers International Hotel Group, Inc.
F	Manila Bayside Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shiok Success International, Ltd.
N	Dew Dreams International, Ltd.
O	Fil-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Emperador Inc.

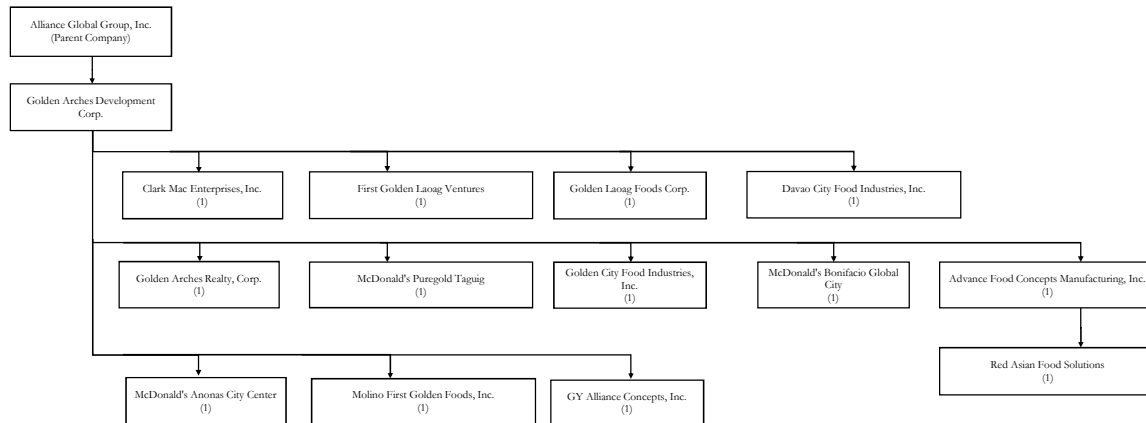
**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
 Schedule I-2 - Map Showing the Relationship Between Alliance Global Group, Inc.  
 and Travellers Group  
 December 31, 2018



Legend	
<i>Relationship with Travellers International Hotel Group, Inc.</i>	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centro, Inc.
D	Newtown Land Partners, Inc.
E	Travellers International Hotel Group, Inc.
F	Manila Bayshore Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shok Success International, Ltd.
N	Des DREAMS International, Ltd.
O	File-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Emperador Inc.

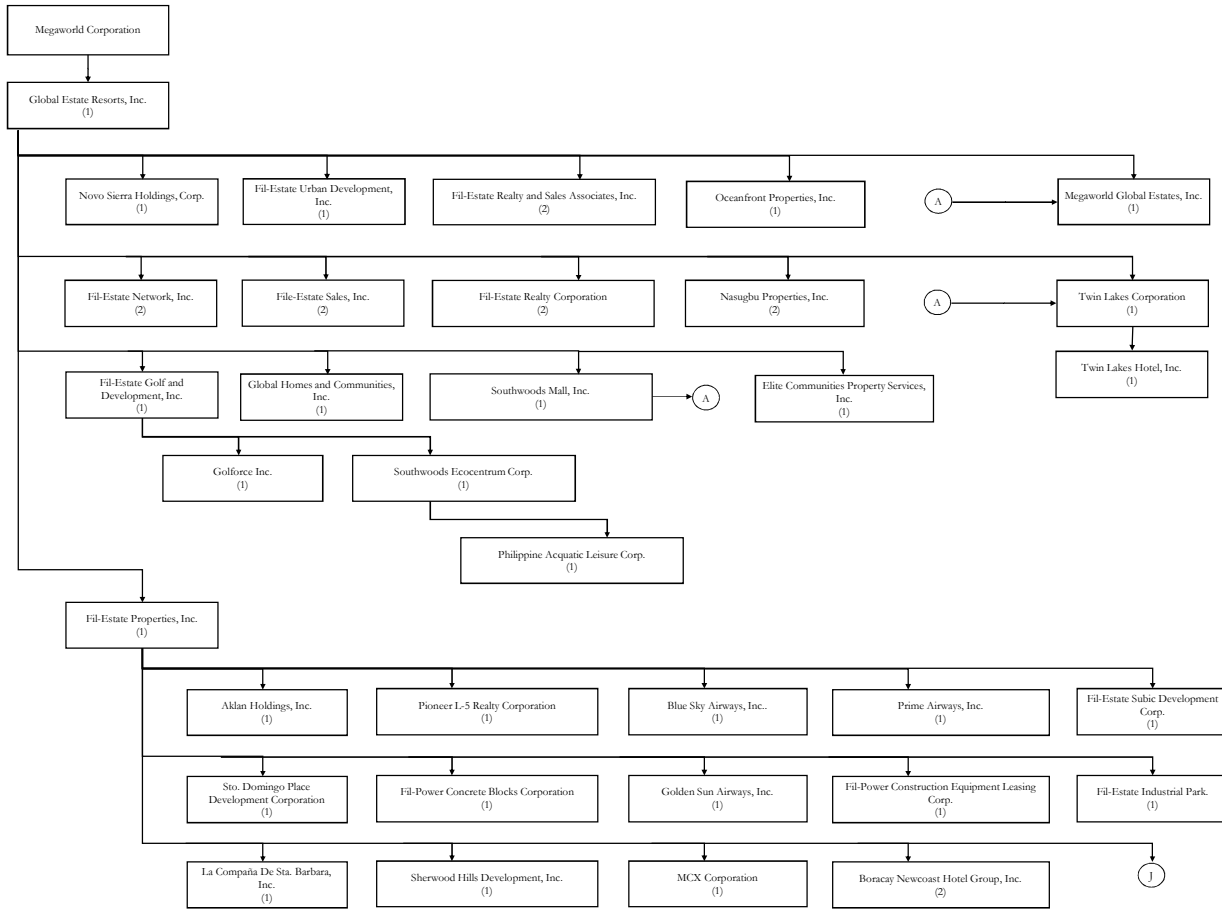
**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**

Schedule L-3 - Map Showing the Relationship Between Alliance Global Group, Inc. and Golden Arches Development Corporation Group  
December 31, 2018



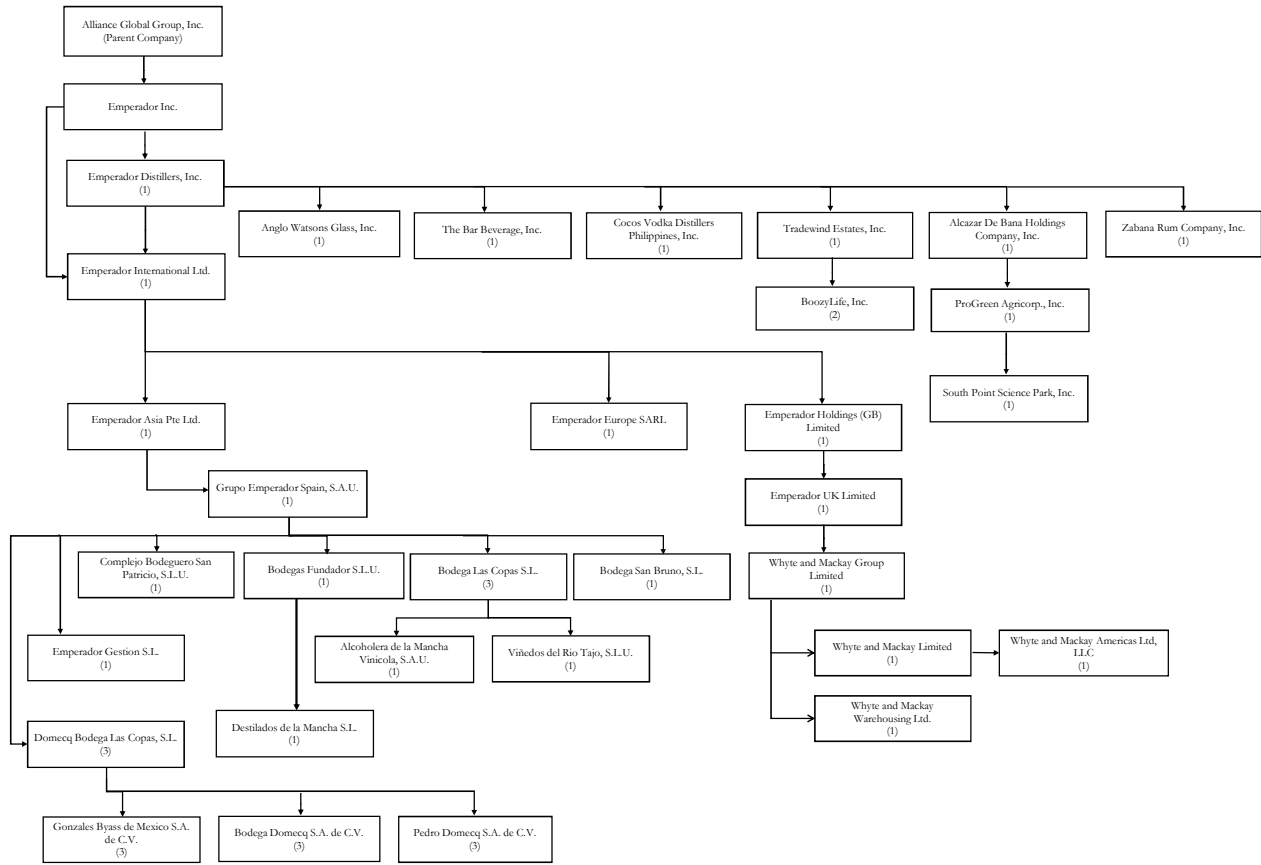
Legend			
<i>Relationship with Golden Arches Development Corporation</i>			
(1)	Subsidiary		
(2)	Associate		
(3)	Jointly Controlled Entity		
A	Megaworld Corporation	J	Twin Lakes Corporation
B	Adams Properties, Inc.	K	Megaworld Global Estates, Inc.
C	First Centro, Inc.	L	Megaworld Central Properties, Inc.
D	Newtown Land Partners, Inc.	M	Shiok Success International, Ltd.
E	Travelers International Hotel Group, Inc.	N	Dew Dreams International, Ltd.
F	Manila Bayside Property Holdings, Inc.	O	File-Estate Properties, Inc.
G	Westside City Resorts World, Inc.	P	Sonoma Premier Land, Inc.
H	Townsquare Development, Inc.	Q	Gilmore Property Marketing Associates, Inc.
I	Megaworld Resort Estates, Inc.	R	Emperor Inc.

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
 Schedule L-4 - Map Showing the Relationship Between and  
 Among Megaworld and Global Estate Resorts Inc. Group  
 December 31, 2018



Legend	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	Firm Centro, Inc.
D	Newtown Land Partners, Inc.
E	Travellers International Hotel Group, Inc.
F	Manila Bayside Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shiok Success International, Ltd.
N	Dew Dreams International, Ltd.
O	Fil-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Emperador Inc.

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
 Schedule L-5 - Map Showing the Relationship Between Alliance Global Group, Inc.  
 and Emperador Group  
 December 31, 2018



Legend	
<i>Relationship with Emperador Inc.</i>	
(1)	Subsidiary (100%)
(2)	Subsidiary (51%)
(3)	Subsidiary (50%)
(4)	Jointly Controlled Entity