

COVER SHEET

PH RESORTS GROUP HOLDINGS, INC.  
Company's Full Name

GGDC Administrative Services Building,  
Clark Global City, Clark Freeport Zone  
Pampanga, Philippines  
Company's Address: No./Street/City/Town/Province

(632) 403-4015  
Company's Telephone Number

31 December  
Fiscal Year Ending  
(Month & Day)

*PRELIMINARY INFORMATION STATEMENT*  
SEC Form 20-IS  
FORM TYPE

|                               |                                    |
|-------------------------------|------------------------------------|
| <u>Cashier</u>                | <u>LCU</u>                         |
|                               | <u>DTU</u>                         |
|                               | <u>A1897-13458</u><br>SEC Reg. No. |
|                               | <u>File No.</u>                    |
| <u>Central Receiving Unit</u> | <u>Document ID</u>                 |

**NONE**  
**EACH ACTIVE SECONDARY LICENSE TYPE AND FILE NUMBER**  
(State "NONE" if that is the case)



## **NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

**TO: ALL SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that the annual stockholders' meeting of PH Resorts Group Holdings, Inc. (the "Corporation") will be held on **23 May 2019, Thursday**, at **11 o'clock**, at **Quest Hotel and Conference Center, Clark, Filinvest Mimosa + leisure estate, Mimosa Dr, Clark Freeport, zone, 2023 Pampanga**, for the purpose of taking up the following:

### **AGENDA**

1. Call to Order
2. Proof of Notice of Meeting
3. Certification of Quorum
4. Approval of Minutes of Meeting of Stockholders held on 25 June 2018
5. Report of the President
6. Management Report
7. Approval of the Audited Financial Statements as of 31 December 2018
8. Ratification and confirmation of all acts and resolutions of the Board and Management executed in the normal course of business covering the period 25 June 2018 to 30 April 2019
9. Approval of the Amendments of the Articles of Incorporation of the Corporation for the following matters:
  - To change the principal office of the Corporation is located from GGDC Administrative Services Building, Clark Global City, Clark Freeport Zone, Pampanga, Philippines 2023 to Udenna Tower, 4th Ave. cor. Rizal Drive, Bonifacio Global City, Taguig City
  - To increase the authorized capital stock of the Corporation from Php 8,000,000,000 to up to Php15,000,000,000 divided into 15,000,000,000 common shares or as determined by the Board of Directors.
10. Approval of the Amendment of the By-Laws of the Corporation to change date of the annual shareholders meeting from any the 3<sup>rd</sup> Wednesday of June to the 3<sup>rd</sup> Wednesday of May.
11. Approval of the merger of the Company with its subsidiary, PH Travel and Leisure Holdings Corp.
12. Approval of the acquisition of 100% of the issued and outstanding common shares of Lapulapu Land Corp. by the Company's subsidiary, Lapulapu Leisure, Inc. at the consideration determined by the Board of Directors
13. Approval of the grant of authority to the Board of Directors to issue such number of shares of stock out of the existing capital stock and increase in authorized capital stock and at an issue price of not less than par value as the Board of Directors may determine and to accept cash or non-cash properties as payment for such subscription and the listing of such shares with the Philippine Stock Exchange.
14. Approval of issuance of shares pursuant to an equity offering, private placement, or similar transaction to be determined by the Board and the listing of such shares.
15. Approval by the stockholders of the Employee Stock Incentive Plan.
16. Election of the Board of Directors for 2019.
17. Appointment of External Auditors
18. Other Matters
19. Adjournment

In accordance with the rules of the Philippine Stock Exchange, only stockholders of record as of 3 May 2019 are entitled to notice of and to vote as such in the annual shareholders' meeting and any adjournment thereof. Registration for those who are personally attending the meeting will start at 9:00 am and end promptly at 10:30 am on 23 May 2019. All stockholders who will not, are unable, or do not expect to attend the meeting in person are encouraged to fill out, date, sign and send a proxy to the Corporation. All proxies should be received by the Corporation at least four (4) business days before the meeting, or on or before 17 May 2019. Proxies submitted will be validated by a Committee of Inspectors on 20 May 2019 at 10:00 o'clock in the morning. For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.:

To avoid inconvenience in registering your attendance at the meeting, you or your proxy is requested to bring identification paper(s) containing a photograph and signature, e.g. passport, driver's license, or credit card. Attendees unable to present identification document upon registration shall not be admitted to the meeting.

5 April 2019,

  
**LEANDRO E. ABADUEZ**  
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 26  
OF THE SECURITIES REGULATION CODE



1. Check the appropriate box:  
☒ Preliminary Information Statement  
☐ Definitive Information Statement

2. Name of Registrant as specified in its charter: **PH RESORTS GROUP HOLDINGS INC.**

3. Country of Incorporation: **PHILIPPINES**

4. SEC Identification Number: **CS200901269**

5. BIR Tax Identification Code: **007-236-853-000**

6. Address of principal office:

**GGDC Administrative Services Building,  
Clark Global City, Clark Freeport Zone,  
Pampanga, Philippines**

Postal Code: **2023**

7. Registrant's telephone number, including area code: **(632) 403-4015**

8. Date, time and place of the meeting of security holders:

**23 May 2018 (Thursday), 11:00 a.m.;  
Quest Hotel and Conference Center, Clark  
Filinvest Mimosa + leisure estate,  
Mimosa Dr, Clark Freeport, zone, 2023 Pampanga**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **30 April 2018**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class               | Number of Shares of Common Stock<br>Outstanding or Amount of Debt Outstanding |
|-----------------------------------|---|
| <b>Common Stock, ₱1 par value</b> | <b>4,793,266,504 shares</b>   |

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes ☒ No ☐

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

There are 243,241,504 common shares in the Company that are listed in the Philippine Stock Exchange.

**PART I.**  
**INFORMATION REQUIRED IN THE INFORMATION STATEMENT**

**A. GENERAL INFORMATION**

**Item 1. Date, Time, and Place of Meeting of Security Holders**

Date : 23 May 2019  
Time : 11:00 a.m.  
Place : **Quest Hotel and Conference Center, Clark**  
Filinvest Mimosa + leisure estate,  
Mimosa Dr, Clark Freeport, zone, 2023 Pampanga  
Principal: GGDC Administrative Services Bldg.  
Office Clark Global City, Clark Freeport Zone,  
Pampanga Philippines

The approximate date on which the information statement and proxy form will be sent to all shareholders is on 30 April 2019.

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO  
SEND US A PROXY**

**Item 2. Dissenter's Right of Appraisal**

The stockholders of the Company may exercise the right of appraisal with respect to the actions to be taken up at the meeting pursuant to Title X on Section 81 governing the exercise of Appraisal Rights under the Corporation Code of the Philippines which states that:

"Any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence.
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in this code; and
3. In case of merger or consolidation.

An appraisal right is also available to dissenting shareholders in case the corporation decides to invest its funds in another corporation or business as provided for in Section 42 of the Corporation Code.

There is no matter to be taken up which will give rise to the exercise of this right.

**Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

There is no substantial interest, direct or indirect, by security holdings or otherwise, of any director or officer of the Company, any nominee or associate thereof, in any matter to be acted upon, other than elections to office.

The Board of Directors of the Company is not aware of any party who has indicated an intention to oppose the motions set forth in the Agenda.

## B. CONTROL AND COMPENSATION INFORMATION

### Item 4. Voting Securities and Principal Holders Thereof

As of 28 February 2019, there are 4,793,266,504 shares of PH Resorts Group Holdings, Inc. common stock outstanding and entitled to vote at the Annual Stockholders' Meeting. Each common share shall be entitled to one (1) vote. Only holders of the Company's stock of record at the close of business on 3 May 2019, acting in person or by proxy on the day of the meeting, are entitled to notice and to vote at the Annual Stockholders' Meeting to be held on 23 May 2019.

Cumulative voting is allowed for election of the members of the Board of Directors. Each stockholder may vote the number of shares of stock outstanding in his own name as of the record date of the meeting for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected and provided, however, that no delinquent stock shall be voted.

#### a. Security Ownership of Certain Record and Beneficial Owners

The following table presents the record/beneficial owners known to the Company who in person or as group own more than five percent (5%) of the issued and outstanding capital stock of the Company as of 28 February 2019\*\*\*\*.

| Title of Class of Shares Held | Name, Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent Held |
|-------------------------------|--|---|-------------|--------------------|--------------|
| Common                        | Udenna Corporation   | Dennis A. Uy / Cherylyn C. Uy                               | Filipino    | 4,313,927,702      | 90%          |

#### b. Security Ownership of Management

As of 28 February 2019, the shares owned of record or beneficially by the directors and the executive officers are as follows:

| Title of Class | Name of Beneficial Owner of Common Stock | Nature of Beneficial Ownership (D) Direct / (I) Indirect | Citizenship | No. Of Shares | Percent of Class |
|----------------|--|--|-------------|---------------|------------------|
| Common         | Dennis A. Uy*                            | D / I  | Filipino    | 3,019,748,492 | 63%              |
| Common         | Cherylyn C. Uy*                          | D / I  | Filipino    | 1,294,179,212 | 27%              |
| Common         | Raymundo Martin M. Escalona              | D  | Filipino    | 1             | 0%               |

|        |                   |   |          |       |    |
|--------|-------------------|---|----------|-------|----|
| Common | Jose Angel Sueiro | D | Spanish  | 1     | 0% |
| Common | Lara C. Lorenzana | D | Filipino | 1     | 0% |
| Common | William W. Yap    | D | Filipino | 5,300 | 0% |
| Common | Eric O. Recto     | D | Filipino | 1,000 | 0% |

\*Indirect beneficial ownership thru PHR's parent company, Udenna Corporation.

Directors and officers as a group hold a total of 4,313,934,007 shares equivalent to 90% of the issued and outstanding capital stock of PHR. Dennis A. Uy and Cherylyn C. Uy own indirectly more than 5% shares of the Company's total outstanding capital stock.

*a. Voting Trust Holders of 5% or more*

The Company has no knowledge of any voting trust agreement or any other similar arrangement which may result in a change in control of the Company.

*d. Changes In Control*

There is no arrangement which may result in a change in control of the Company.

## Item 5. Directors and Executive Officers

*a. Directors and Senior Officers*

The Company's Board of Directors is responsible for the overall management and direction of the Company. The Board meets regularly on a monthly basis, or as often as required, to review and monitor the Company's financial position and operations.

The directors of the Company are elected at the Annual Stockholders' Meeting to hold office for one (1) year and until their respective successors have been elected and qualified.

Except for Dennis A. Uy and Cherylyn C. Uy, none of the members of the Board of Directors and Officers of the Company own directly or indirectly more than 5% of PH Resorts Group Holdings Inc.'s shares.

The table below sets forth the members of the Company's Board and senior officers as of the date of this Report:

| Name                        | Age | Citizenship | Position                                     |
|-----------------------------|-----|-------------|--|
| Dennis A. Uy                | 44  | Filipino    | Chairman, Director                           |
| Cherylyn C. Uy              | 39  | Filipino    | Director                                     |
| Raymundo Martin M. Escalona | 57  | Filipino    | President, Director                          |
| Lara Lorenzana              | 44  | Filipino    | Chief Financial Officer, Treasurer, Director |
| Jose Angel Sueiro           | 46  | Spanish     | Chief Operating Officer, Director            |
| Eric O. Recto               | 54  | Filipino    | Independent Director                         |
| William W. Yap              | 43  | Filipino    | Independent Director                         |
| Leandro E. Abarquez         | 38  | Filipino    | Corporate Secretary                          |

Below are summaries of the business experience and credentials of the Directors and the officers:

**Dennis A. Uy**

Dennis A. Uy is the founder and Chairman of the Company. He is also the Chairman and President of Udenna Corporation, the Company's parent company, which has businesses in the shipping, logistics, distribution, real estate, and service industries. Among the subsidiaries of Udenna Corporation are Phoenix Petroleum Holdings, Inc. ("PPHI"), Chelsea Logistics Holdings Corp. ("CLC"), Udenna Management & Resources Corp. ("UMRC"), UDEVCO, PH Travel and Leisure, Le Penseur, Inc., and Udenna Water and Integrated Services, Inc. Mr. Uy is the Chairman

and President of PPHI, the holding company of Phoenix Petroleum Philippines, Inc. ("PPPI") and serves as the President and Chief Executive Officer of PPPI. He is currently the Chairman of CLC. He is likewise the President and Chief Executive Officer of UMRC and its subsidiaries. In addition, Mr. Uy is the Chairman of F2 Logistics, Phoenix Philippines Foundation, and Udenna Foundation. He is a director of shipping and logistics provider 2Go Group, Inc. through Udenna Investments BV's subsidiary KGLI-NM Holdings Inc. He also serves as Independent Director of Apex Mining Corp.

He is a member of the Young Presidents Organization – Philippine chapter and the Philippine Business for Social Progress. Since November 2011, Mr. Uy has been the Honorary Consul of Kazakhstan to the Philippines. In 2016, he was appointed as the Presidential Adviser on Sports. He is a graduate of De La Salle University with a degree in Business Management.

#### **Cherylyn C. Uy**

Cherylyn C. Uy, is a Director of the Company. Ms. Uy is one of the pioneers/incorporators of Udenna Corporation, the ultimate parent company of PNX-Chelsea, and which has subsidiaries engaged in the petroleum, shipping, logistics, services, and real estate businesses, among others. She is the Corporate Treasurer of Udenna group. She is also a director of PPPI and CLC.

She is also one of the Directors of Phoenix Philippines Foundation, Inc. and of Udenna Foundation, Inc., the corporate social responsibility entities of the Udenna Group. Ms. Uy is the Corporate Treasurer of UMRC, Chelsea Shipping Corp. and other Udenna companies. She also serves as the Corporate Secretary of Allied Guard Security Agency Philippines, Inc. Ms. Uy is a graduate of Business and Finance from Ateneo de Davao University.

#### **Raymundo Martin M. Escalona**

Raymundo Martin M. Escalona is the President of the Company. He is also currently a Director of Udenna Corporation. Mr. Escalona has over 28 years of experience in corporate finance and banking, primarily in the areas of treasury and relationship management. Prior to joining the Company, Mr. Escalona was the Executive Vice President and served as the Head of the Institutional Banking Group of CTBC Bank (Philippines) Corp. He also served as the Executive Vice President and Corporate and Institutional Bank Head of Australia and New Zealand Bank, Manila Branch. Mr. Escalona was also previously the First Vice President and Unit Head of Corporate Banking and Financial Institutions in BDO; Vice President and Head of Large Local Corporate Unit and Deputy Corporate Banking Head in Deutsche Bank AG, Manila Branch; and Assistant Vice President of Relationship Management Unit in Citytrust. Mr. Escalona earned his Bachelor of Science in Commerce degree, Major in Management of Financial Institutions, at the De La Salle University.

#### **Lara Lorenzana**

Lara Lorenzana-Kolling is the Chief Finance Officer of the Company. Ms. Lorenzana has over 20 years of experience in investment banking, project and structured finance, and risk and portfolio management. She started her career in Citibank Manila's Corporate Finance department which was the leader in project and structured finance for the privatization of power, water and telecom industries in the Philippines. Ms. Lorenzana spent the next 17 years in New York City as the Global Portfolio Risk Manager for Barclays Capital, Portfolio Manager/Director for Unicredito Italiano New York Branch, and Portfolio Manager/Managing Director for fixed income for Modern Bank, NA. Ms. Lorenzana has a Masters in International Management from Thunderbird School of Management in Arizona, a Masters in Business Administration from Fordham University in New York City, and a Bachelor of Arts degree in Economics from the Ateneo de Manila University.

#### **Jose Angel Sueiro**

Jose Angel Sueiro is the Chief Operating Officer of the Company. Mr. Sueiro has over 20 years of experience in the hotel and gaming industry and has worked on over 30 hotel and casino projects in 18 countries, such as Fiesta Casino Alajuela, Intercontinental Hotel Fiesta Casino Guatemala, Hilton Margarita Cirsa and Centrum Casino Lodz. He has extensive knowledge about product creation and marketing and has a deep understanding of the local regulatory environment, the relation and balance between different political, economic and social forces. During his time with Thunderbird Resorts (including the Thunderbird Hotel and Casino in Rizal, Poro Point and Daman), a company with operations in more than 20 countries, he served as the Chief Operating Officer, Vice President for Corporate Affairs and Vice President for Design and Construction. He was responsible for creating and executing strategy, communicating culture and running daily matters with the objective of increasing stakeholder value. Mr. Sueiro holds an MBA from EUDE Business School, Madrid.

#### **Eric O. Recto**

Eric O. Recto is one of the two independent directors of the Company. He is the Chairman and President of ISM Communications Corporation and Bedfordbury Development Corporation. He also serves as the Chairman and Director of Philippine Bank of Communications. Previously the President, he now serves as a Director of Petron Corporation. He is also an independent director for Aboltiz Power Corporation. His previous positions include Vice Chairman of Alphaland Corporation, Director of San Miguel Corporation and Manila Electric Company, and Undersecretary for the Department of Finance.

#### **William W. Yap**

William W. Yap is one of the two independent directors of the Company. He is currently the CEO of YYKredit Inc and the President of YYKaizen Food Labs Inc. and Udiot Realty Corporation. Mr. Yap also serves as the Treasurer for Nissan Cebu Distributors Inc. and Palawan Resources Development Corporation. Mr. Yap has a Bachelor's Degree in Industrial Engineering from the University of San Carlos.

#### **Leandro E. Abarquez**

Leandro E. Abarquez is the Corporate Secretary of the Company. Prior to joining the Company, he was a Senior Associate at Romulo, Mabanta, Buenaventura, Sayoc & de los Angeles from 2010 to 2017, where he advised clients on various diverse matters and special projects including mergers and acquisitions, initial public offering, gaming regulatory advice, public-private partnerships, project finance, and dispute resolution matters. He received his bachelor's degree in Biology from the Ateneo de Manila University in 2004, and his juris doctor degree from the same university in 2009. He is also the Compliance Officer of CLC.

#### *b. Family Relationships*

Dennis A. Uy, Chairman and Director of the Company, is the spouse of Cherylyn C. Uy, Director of the Company.

Other than as disclosed above, there are no other family relationships between Directors and members of the Company's senior management known to the Company.

#### *c. Independent Directors*

As of the submission of this report, Messrs. Eric O. Recto and William W. Yap are neither officers nor substantial shareholders of PH Resorts Group Holdings, Inc. nor are they directors or officers of any of its related companies.

Effective 1 January 2017, the Company has adopted the new rules on the term limits of Independent Directors under the New Code of Corporate Governance ("New CG Code"). Current Independent Directors are allowed to serve for a cumulative term of nine (9) years, with or without the cooling-off period. After which, the independent director should be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election as



a non-independent director. Reckoning of the cumulative nine-year term is from 2012, in connection with SEC Memorandum Circular No. 9, Series of 2011.

In the instance that the Company wants to retain an Independent Director who has served for nine years, the Board shall provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

d. *Significant Employees*

While the Company values the contribution of each executive and non-executive employee, no single employee who is not an executive officer is expected to make a significant contribution to the business. Other than standard employment contracts, there are no arrangements with non-executive employees that will assure the continued stay of these employees with the Company.

e. *Pending Legal Proceedings*

To the knowledge and/or information of the Company, the present members of the Board of Directors or its Senior Officers and the nominees for election as director named in the subsequent sections are not, as of the past five (5) years, been adjudged with finality in any material legal proceeding affecting/involving themselves and/or their properties before any court of law or administrative body in the Philippines or elsewhere. To the knowledge and/or information of the Company, the said persons have not been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or any other nation/country.

f. *Certain Relationships and Related Transactions*

Historically, the Company receives or extends advances from and to its major shareholders from time-to-time as the need arises. These advances are non-interest bearing and payable under certain terms and conditions primarily dependent on the Company's cash position.

The Company, in the regular course of trade or business, enters into transactions with affiliated/related companies principally consisting of management fees, leasing agreements and cash advances. Generally, management and leasing arrangements are renewed on an annual basis and are based on terms similar to those offered to non-related parties.

There are no other transactions undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or will be involved or had or will have a direct or indirect material interest.

g. *Elections of Directors*

The directors of the Company are elected at the Annual Stockholders' Meeting to hold office for one (1) year and until their respective successors have been elected and qualified.

The directors on the Nominations Committee are Mr. Raymundo Martin M. Escalona, Mr. William W. Yap, and Mr. Jose Angel Sueiro. The chairperson is Mr. Escalona and the Independent Director is Mr. Yap.

The following have been nominated as Directors of the Company for 2019-2020:

1. Dennis A. Uy
2. Cherylyn C. Uy
3. Raymundo Martin M. Escalona
4. Jose Angel Sueiro
5. Lara C. Lorenzana
6. Ma. Concepcion de Claro
7. Eric O. Recto
8. William W. Yap
9. Angel E. Ignacio

The nominees were formally nominated to the Nomination Committee by a stockholder of the Company, Eric O. Recto, William W. Yap, and Angel E. Ignacio are the nominees for Independent Director.

A background on the new nominees can be found below.

**Ma. Concepcion F. De Claro**

Ma. Concepcion F. De Claro holds a Bachelor of Science degree in Commerce, Major in Accounting from the Colegio de San Juan de Letran. She has been the Company's Chief Financial Officer since March 2018. She was Director of Alsons Prime Investment Corporation and Alsons Power Holdings Corporation and the Vice-President and Chief Operating officer of Alsons Corporation. She also served as the Director of Limay Energen Corporation and Manila North Harbour Port, Inc. Ms. de Claro also worked with Petron Corporation for several years. She was a Consultant for M&A Projects and a member of the Board of Trustees of Petron Corporation Employees Retirement Fund. She also served as Petron's Vice President for Corporate Planning & Services, Controller for the company and its subsidiaries, and held various positions in Corporate Planning. In addition, Ms. De Claro also served as a Director of New Ventures Realty Corporation, Las Lucas Development Corporation, Petron Marketing Corporation and Petron Freeport Corporation.

**Angela E. Ignacio**

Angela E. Ignacio is also the Executive Vice President of R.A. Ignacio Construction Corporation and the Managing Director for Corporate Advisory for Avisaz Asia, Inc. She is a fellow of the Institute of Corporate Directors. She is also a Director of ESNA Financing & Investment Corp., ESNA Realty Corp., and ESNA Holdings; and Director and Vice President of Polestrom Consulting, Inc. She is also an independent director of Ayala Land, Inc. since 2017. She is a Certified Finance and Treasury Professional in Australia and a Member of the Finance and Treasury Association of Australia. She was an International Consultant for The World Bank's Public Financial Management Assistance Program in Vietnam for the oversight of state owned enterprises and the Infrastructure Sector Assessment Program (InfraSAP) SOE Mission in Indonesia. She served as a Commissioner of the Governance Commission for Government Owned or Controlled Corporations ("GCG") with a rank of Undersecretary from November 2011 to June 2016. Prior to her appointment as GCG member, she served as Vice President under the Office of the Board Chairman at the Philippine Deposit Insurance Corporation and also served concurrently as Special Assistant for Corporate Affairs and Management Information Systems to the Secretary of the Department of Finance ("DOF") from September 2010 to October 2011. She was a Director of the United Coconut Planters Bank where she was also a member of the Executive, Risk Management and Compensation and Benefits Committees; and a Director of UCPB Savings Bank and UCPB Securities. She obtained her double degree in Applied Economics and Commerce, major in Management of Financial Institutions from De La Salle University in 1994 where she was awarded Best Thesis by the Economics Department for her work on Financial Distress Prediction Models in the Philippines. She earned a Master's Degree in Applied Finance from the University of Melbourne in 2000.

As required under SRC Rule 38 and as ratified for inclusion in the Corporation's By-Laws by the stockholders in its meeting held November 24, 2010 (the amended By-Laws was approved by the SEC on December 23, 2009), the following criteria and guidelines shall be observed in the nomination and election of independent directors:

**A. Definition**

1. As used in Section 38 of the Code, independent director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company and includes, among others, any person who:
  - a. Is not a director or officer of the covered company or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing;

- b. Does not own more than two percent (2%) of the shares of the covered company and/or its related companies or any of its substantial shareholders;
- c. Is not related to any director, officer or substantial shareholder of the covered company, any of its related companies or any of its substantial shareholders. For this purpose, relatives includes spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
- d. Is not acting as a nominee or representative of any director or substantial shareholder of the covered company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
- e. Has not been employed in any executive capacity by the covered company and/or by any of its substantial shareholders within the last five (5) years;
- f. Is not retained as professional adviser by the Corporation, and/or any of its related companies and/or any of its substantial shareholder within the last five (5) years;
- g. Is not retained, either personally or through his firm or any similar entity, as professional adviser, by that covered company, any of its related companies and/or any of its substantial shareholders;
- h. Has not engaged and does not engage in any transaction with the covered company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial.

No person convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of this Code, committed within five (5) years prior to the date of his election, shall qualify as an independent director. This is without prejudice to other disqualifications which the covered company's Manual on Corporate Governance provides.

Any controversy or issue arising from the selection, nomination or election of Independent directors shall be resolved by the Commission by appointing independent directors from the list of nominees submitted by the stockholders.

When used in relation to a company subject to the requirements of this Rule and Section 38 of the Code:

- a. **Related company** means another company which is: (a) its parent company, (b) its subsidiary, or (c) a subsidiary of its parent company; and
- b. **Substantial shareholder** means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

#### B. Qualifications

- 1. Must be the holder of at least one share of the Corporation;
- 2. College graduate or has sufficient management experience to compensate for lack of formal education or has been engaged or exposed to the business of the corporation for at least five (5) years;
- 3. Of legal age;
- 4. Possesses integrity and probity; and
- 5. Assiduous.

#### C. Disqualifications

- 1. Falls under Section II (5) of the Code of Corporate Governance;
- 2. Becomes an employee;
- 3. Beneficial ownership exceeds two percent (2%);
- 4. Absent in meetings up to 50%; and
- 5. Others as per Corporate Governance Manual.

#### D. Nominations

1. The Nominations Committee conducts nominations prior to the Annual Stockholders' Meeting.
2. The Nominations Committee solicits candidates for independent director. All recommendations are signed by the nominating shareholder together with acceptance and conformity by the prospective nominee.
3. The Nominations Committee pre-screens candidates whether they meet the requirements as an independent director per criteria mentioned above, general guidelines in the Corporate Governance Manual, Articles of Incorporation, By-Laws and perceived needs of the Board of Directors and the Corporation such as, but not limited to:
  - a. Nature of business of corporations which he is a director of;
  - b. Age;
  - c. No. of directorships/active memberships/officer in other corporations and organizations;
  - d. Possible conflict of interest.
4. The Nominations Committee shall prepare a list of all candidates and evaluate based on the above-listed required qualifications to enable it to effectively review the qualifications of the nominees for independent director.
5. After the nomination, the Committee shall prepare a final list of candidates which shall contain all the information about the nominees for independent director, as required under Part IV (A) and (C) of Annex C of SRC Rule 12, which list, shall be made available to the SEC and to all shareholders through the filing and distribution of the Information Statement or Proxy Statement, in accordance with SRC Rule 20, or in such other reports the company is required to submit to the SEC.

The name of the person or group who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.
6. Only nominees on the final list of candidates will be eligible for election. No other nominees shall be entertained after the final list is prepared. No further nomination will be allowed during the annual stockholders' meeting.

#### E. Election

1. Except as those required under the Rule and subject to pertinent existing laws, rules and regulations of the Commission, the conduct of the election of independent directors shall be made in accordance with the standard election procedures of the company or its by-laws.
2. It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent directors. He shall ensure that independent directors are elected during the stockholders' meeting.
3. Specific slots for independent directors shall not be filled-up by unqualified nominees.
4. In case of failure of election for independent directors, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Committee otherwise, said vacancies shall be filled by the stockholders in a regular or special meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

The following nominees, as submitted to and pre-screened by the Nominations Committee of the Corporation, qualify as independent director:

1. Eric O. Recto
2. William W. Yap
3. Angel Ignacio

The name of the person who recommended Mr. Yap and Mr. Recto is Mr. Raymundo Martin M. Escalona. Mr. Escalona is not related by consanguinity or affinity to any of the nominated Independent directors.

#### **Item 6. Compensation of Directors and Executive Officers**

For the period ending 31 December 2018, the Company paid an aggregate remuneration of approximately ₱27.8 million to the senior executives of the Company, including the President, Chief Financial Officer and Chief Operating Officer, during the current fiscal year, based on certain assumptions by the Company.

| SUMMARY ANNUAL COMPENSATION TABLE |        |        |       |
|-----------------------------------|--------|--------|-------|
| (₱ millions)                      |        |        |       |
| Name and Principal Positions      | Period | Salary | Bonus |
| Total compensation of executives  | 2018   | ₱35.5  | —     |

There is no compensatory plan or arrangement with respect to any of the Company's executive officers that will result from the resignation, retirement or termination of such executive officer or from a change of control in the Company.

#### **Item 7. Independent Public Accountants**

Constantino, Guadalquivir & Co. (CGCo) has been the Company's independent auditors since 2009 until 26 June 2018. On 26 June 2018, the Company change its External Auditors to SyCip Gorres Velayo & Co. (SGV & Co).

Representatives of SGV & Co. will be present during the annual stockholders' meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions from stockholders, if needed. SGV & Co. has accepted the Company's invitation to stand for re-election this year.

Mr. Eric O. Recto, an Independent director, chairs the Audit Committee. The members are Mr. Raymundo Martin M. Escalona and Ms. Lara C. Lorenzana.

María Pilar B. Hernandez is the current audit partner for the Company and its subsidiaries. Pursuant to SRC Rule 68, Paragraph 3(b)(iv), the Company will either change its External Auditor or rotate the engagement partner every five (5) years.

#### **Item 8. Compensation Plans**

Approval is sought for the Company's Employee Stock Incentive Plan (the "Plan") for qualified employees, directors, officers and other qualified persons, the terms of which shall be determined by the Administrative Committee of the Plan, and to be approved by the Board of Directors.

The Purpose of the Plan is to: (a) reward and retain high performing employees; (b) motivation for work increased work performance; (c) to attract qualified and young talents; (d) improve employees' net worth; and (e) broaden the Company's ownership base.

#### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

##### **A. Increase in Authorized Capital Stock**

The Company is proposing an increase in authorized capital stock of the Corporation from Eight Billion Pesos (PhP8,000,000,000.00) divided into Eight Billion (8,000,000,000) shares with a par value of One Peso (PhP1.00) per share to up to Fifteen Billion Pesos (PhP15,000,000,000.00)

divided into Twelve Billion (15,000,000,000) shares with a par value of One Peso (PhP1.00) per share or such other amount as determined by the Board of Directors.

Approval of the stockholders is hereby sought for said increase in authorized capital stock, the subscription to the increase in authorized capital stock, and to grant the Board of Directors the authority to issue such number of shares of stock out of the existing capital stock and increase in authorized capital stock and at an issue price of not less than par value as the Board of Directors may determine and to accept cash or non-cash properties as payment for such subscription.

#### **B. Issuance and Listing of Shares**

Approval of the stockholders is also sought to grant Board of Directors the authority to issue shares pursuant to equity offering, private placement or such similar transaction under such terms and conditions as the Board of Directors may determine, and to list such shares with the Philippine Stock Exchange.

### **Item 11. Financial and Other Information**

The Company's financial statements as of and for the year ended December 31, 2018 and Management Report are attached hereto as Annexes "A" and "B".

**UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, WITHOUT CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.**

ALL REQUESTS MAY BE SENT TO THE FOLLOWING ADDRESS:

**MR. LEANDRO E. ABARQUEZ**  
Corporate Secretary  
PH Resorts Group Holdings, Inc.  
GGDC Administrative Services Building,  
Clark Global City, Clark Freeport Zone,  
Pampanga, Philippines

### **Item 12. Mergers, Consolidations, Acquisitions and other Similar Matters**

It is proposed that a merger of the Company and its subsidiary, PH Travel and Leisure Holdings Corp. ("PH Travel") be approved by the shareholders. PH Travel is 100% owned by the Company, and is the holding company for the gaming and hospitality arm of the Udenna Group, which includes LapuLapu Leisure, Inc., Clark Grand Leisure Corp., and Donatela Hotel Panglao Corp. The merger is being proposed for better efficiency and consolidation.

### **Item 13. Acquisition/Disposition of Property**

In addition to the merger in Item 12, for approval and/or ratification is the acquisition of 100% of the issued and outstanding common shares of Lapulapu Land Corp. by the Company's subsidiary, Lapulapu Leisure, Inc. at the consideration determined by the Board of Directors.

### **Item 14. Restatement of Accounts**

The accounting policies and disclosure set out in the audited financial statements have been applied consistently to all the years presented except for the following amended PFRS and PAS which became effective in 2017:

- **PAS 7, "Cash Flow Statements": Disclosure Initiative**

The amendments require the entity to provide disclosures that enable users of financial statement to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non cash changes. The specific disclosure that may be necessary in order to

satisfy the above requirement includes:

- changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and
- a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

The amendments did not have significant impact on the financial statements as this affects disclosures only.

- PAS 12, "Income Taxes": Recognition of Deferred Tax Assets for Unrealized Losses

The amendments in recognition of deferred tax assets for unrealized losses clarify the requirements on recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value.

The amendments did not have significant impact on the Company's financial statements.

#### **Item 15. Action with Respect to Minutes of Previous Meeting**

Actions to be taken will constitute reading and approval of the minutes of the previous stockholders' meeting, approval of the Annual Report of Management, approval of the amendment of the Articles of Incorporation, and ratification of all acts of the officers and management for the year ended 31 December 2018. The minutes of the Annual Stockholders' Meeting held on 25 June 2018 and the relevant resolutions approved by the Board of Directors for ratification by the stockholders are attached hereto as Annexes "C" and "D".

#### **Item 17. Amendments of Charter, By-Laws and Other Documents**

Amendment of the Articles of Incorporation of the Corporation as follows:

- I. To change the principal office address of the Corporation to "Udenna Tower, 4<sup>th</sup> Ave. cor. Rizal Drive, Bonifacio Global City, Taguig City."
- II. To increase the authorized capital stock of the Corporation from Eight Billion Pesos (PhP8,000,000,000.00) divided into Eight Billion Common shares (8,000,000,000) with a par value of One Peso (PhP1.00) per share to Fifteen Billion Pesos (PhP15,000,000,000.00) divided into Fifteen Billion (15,000,000,000) shares with a par value of One Peso (PhP1.00) per share.]

Amendment of the By-Laws of the Corporation as follows:

- I. To change the date of the annual stockholders meeting to "the third Wednesday of May."

#### **Item 18. Other Matters**

As of the date hereof, there are no other matters which the Board of Directors intends to present or has reason to believe others will present at the meeting.

#### **Item 19. Voting Procedures**

The aforementioned motions will require the affirmative vote of a majority of the issued and outstanding shares of the Company's common stock present and represented and entitled to vote at the Annual Meeting, except for the matters which require an amendment of the Articles of Incorporation of the Company, which will require a vote of 2/3 of the issued and outstanding shares of the Company's common stock present and represented and entitled to vote at the Annual Meeting. Because abstentions with respect to any matter are treated as shares present and represented and entitled to vote for purposes of determining whether the stockholders have approved that matter, abstentions have the same effect as negative votes. Broker non-votes and

shares as to which proxy authority has been withheld with respect to any matter are not deemed to be present or represented for purposes of determining whether stockholder approval of that matter has been obtained.

Items requiring the vote of stockholders will be presented for approval of the stockholders at the meeting and voting shall be by *viva voce*. SGV & Co., the Company's independent auditors, were requested and have agreed to manually tally the votes at the meeting. They will present the results afterwards.



## **SIGNATURE**

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

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Taguig City on this 5th day of April 2019.

**PH RESORTS GROUP HOLDINGS INC.**

By:

  
**LEANDRO E. ABARQUEZ**  
Corporate Secretary

**DRAFT**

**PH Resorts Group Holdings, Inc.**  
**(formerly Philippine H2O Ventures Corp)**  
**and Subsidiaries**

**Consolidated Financial Statements**  
**December 31, 2018 and 2017**

**and**

**Independent Auditor's Report**

**DRAFT**

# COVER SHEET

SEC Registration Number

|   |   |   |   |   |   |   |   |   |   |   |  |
|---|---|---|---|---|---|---|---|---|---|---|--|
| C | S | 2 | 0 | 0 | 9 | 0 | 1 | 2 | 6 | 9 |  |
|---|---|---|---|---|---|---|---|---|---|---|--|

**COMPANY NAME**[illegible]**PRINCIPAL OFFICE** (No. / Street / Barangay / City / Town / Province)[illegible]

### Form Type

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Department requiring the report.

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Secondary License Type, If Applicable

|   |   |   |  |
|---|---|---|--|
| N | / | A |  |
|---|---|---|--|

## COMPANY INFORMATION

**Company's Email Address:**

**[lara.lorenzana@phresorts.com](mailto:lara.lorenzana@phresorts.com)**

Company's Telephone Number

**(632) 800-8493**

**Refable Number**

N/A

No. of Stockholders

25

Annual Meeting (Month/Day)

**3<sup>rd</sup> Wednesday of June**

Fiscal Year (Month / Day)

1231

**CONTACT PERSON INFORMATION**

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

Name of Contact Person

**Lara Lorenzana**

Email Address

**[lara.lorenzana@phresorts.com](mailto:lara.lorenzana@phresorts.com)**

### Telephone Numbers

**(632) 800-8493**

**Mobile Number**

N/A

**CONTACT PERSON'S ADDRESS**

**Unit 709, 7<sup>th</sup> Floor, The Infinity Tower, 26<sup>th</sup> Street, Bonifacio Global City, Taguig City 1634**

**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-in. 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.

**PH RESORTS GROUP HOLDINGS, INC.**  
**(Formerly Philippine H2O Ventures, Corp.) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

|  | December 31           |                       |
|--|-----------------------|-----------------------|
|  | 2018                  | 2017                  |
| <b>ASSETS</b>  |                       |                       |
| <b>Current Assets</b>                                |                       |                       |
| Cash and cash equivalents (Note 5)                   | P686,846,385          | P165,586,738          |
| Trade and other receivables (Notes 5, 6 and 7)       | 13,986,884            | 5,124,797             |
| Advances to related parties (Note 7)                 | 45,068,343            | 351,404,302           |
| Inventories  | 1,761,369             | —                     |
| Restricted fund (Note 11)                            | 139,955,985           | —                     |
| Prepayments and other current assets (Notes 7 and 8) | 62,563,121            | 3,077,481             |
| <b>Total Current Assets</b>                          | <b>950,182,087</b>    | <b>525,193,318</b>    |
| <b>Noncurrent Assets</b>                             |                       |                       |
| Property, plant and equipment (Note 9, 11 and 20)    | 3,932,239,892         | 473,910,002           |
| Deposit for future property acquisition (Note 10)    | 111,430,494           | 470,687,867           |
| Cash in escrow (Notes 5 and 20)                      | 1,315,918,771         | 751,913,965           |
| Input value-added tax (VAT)                          | 280,192,836           | 21,764,439            |
| Advances to suppliers (Note 9)                       | 213,337,217           | 84,242,355            |
| Deferred tax asset (Note 16)                         | —                     | 503,124               |
| Other noncurrent assets                              | 15,347,898            | 149,786               |
| <b>Total Noncurrent Assets</b>                       | <b>5,868,467,108</b>  | <b>1,803,171,538</b>  |
| <b>TOTAL ASSETS</b>                                  | <b>P6,818,649,195</b> | <b>P2,328,364,856</b> |
| <b>LIABILITIES AND EQUITY</b>                        |                       |                       |
| <b>Current Liabilities</b>                           |                       |                       |
| Current portion of loans payable (Note 11)           | P3,849,608,994        | P1,649,124,684        |
| Trade and other payables (Notes 7 and 12)            | 397,254,293           | 125,533,173           |
| Advances from related parties (Note 7)               | 1,279,332,675         | 129,367,293           |
| <b>Total Current Liabilities</b>                     | <b>5,526,195,962</b>  | <b>1,904,025,150</b>  |
| <b>Noncurrent Liabilities</b>                        |                       |                       |
| Noncurrent portion of loans payable (Note 11)        | 964,864,063           | 787,089               |
| Retention payable (Note 9)                           | 85,776,468            | —                     |
| Deferred tax liabilities- net (Note 16)              | 15,644,701            | —                     |
| <b>Total Noncurrent Liabilities</b>                  | <b>1,066,285,232</b>  | <b>787,089</b>        |
| <b>Total Liabilities</b>                             | <b>6,592,481,194</b>  | <b>1,904,812,239</b>  |
| <b>Equity</b>  |                       |                       |
| Capital stock (Note 13)                              | 4,386,889,813         | 243,241,504           |
| Additional paid-in capital (Note 13)                 | —                     | 58,073,612            |
| Equity reserve (Notes 2 and 13)                      | (4,050,000,000)       | 198,684,884           |
| Deficit  | (110,721,812)         | (76,447,383)          |
| <b>Total Equity</b>                                  | <b>226,168,001</b>    | <b>423,552,617</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>                  | <b>P6,818,649,195</b> | <b>P2,328,364,856</b> |

See accompanying Notes to the Consolidated Financial Statements.

**PH RESORTS GROUP HOLDINGS, INC.**  
**(Formerly Philippine H2O Ventures, Corp.) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|   | Years Ended December 31 |                     |
|---|-------------------------|---------------------|
|   | 2018                    | 2017                |
| <b>NET OPERATING REVENUES</b>                       |                         |                     |
| Food and beverage                                   | P43,889,021             | P-                  |
| Rooms   | 35,148,627              | -                   |
| Others  | 3,720,804               | -                   |
|   | <b>82,758,452</b>       | <b>-</b>            |
| <b>DIRECT COSTS AND EXPENSES</b>                    |                         |                     |
| Inventories consumed                                | 19,786,070              | -                   |
| Salaries and wages                                  | 11,272,482              | -                   |
| Other costs and expenses (Note 14)                  | 4,963,537               | -                   |
|   | <b>36,022,089</b>       | <b>-</b>            |
| <b>GROSS INCOME</b>                                 | <b>46,736,363</b>       | <b>-</b>            |
| <b>OPERATING EXPENSES (Note 15)</b>                 | <b>175,162,104</b>      | <b>55,398,775</b>   |
| <b>OPERATING LOSS</b>                               | <b>(128,425,741)</b>    | <b>(55,398,775)</b> |
| <b>NON-OPERATING INCOME (EXPENSES)</b>              |                         |                     |
| Interest expense (Notes 7 and 11)                   | (81,354,913)            | (15,654,302)        |
| Interest income (Note 5)                            | 20,643,486              | 12,053,748          |
| Gain on disposal of a subsidiary (Note 19)          | 617,037                 | -                   |
| Foreign exchange loss - net                         | (16,185,103)            | (16,613,055)        |
| Other expenses                                      | (344,375)               | (49,391)            |
|   | <b>(76,623,868)</b>     | <b>(20,263,000)</b> |
| <b>LOSS BEFORE INCOME TAX</b>                       | <b>(205,049,609)</b>    | <b>(75,661,775)</b> |
| <b>PROVISION FOR INCOME TAX (Note 16)</b>           |                         |                     |
| Current   | 3,104,148               | 1,288,732           |
| Deferred  | 16,147,825              | (503,124)           |
|   | <b>19,251,973</b>       | <b>785,608</b>      |
| <b>NET LOSS/ TOTAL COMPREHENSIVE LOSS (Note 23)</b> | <b>(224,301,582)</b>    | <b>(76,447,383)</b> |
| <b>Basic and Diluted Loss Per Share (Note 21)</b>   | <b>(P0.7754)</b>        | <b>(P0.3143)</b>    |

*See accompanying Notes to the Consolidated Financial Statements.*

**PH RESORTS GROUP HOLDINGS, INC. (Formerly Philippine H2O Ventures, Corp.) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

|  | Capital Stock<br>(see Notes 1<br>and 13) | Additional<br>paid-in capital<br>(see Note 13) | Equity Reserve<br>(see Notes 2<br>and 13) | Retained<br>Earnings | Total           |
|--|--|--|---|----------------------|-----------------|
| Balance as at December 31, 2017                  | P243,241,504                             | P58,073,612                                    | P198,684,884                              | (P76,447,383)        | P423,552,617    |
| Issuance of capital stock, net of issuance costs | 4,143,648,309                            | (58,073,612)                                   | -   | (11,081,389)         | 4,074,493,308   |
| Total comprehensive loss                         | -  | -  | -   | (224,301,582)        | (224,301,582)   |
| Effect of reverse acquisition                    | -  | -  | (4,248,684,884)                           | 201,108,542          | (4,047,576,342) |
| Balance at December 31, 2018                     | P4,386,889,813                           | P-   | (P4,050,000,000)                          | (P110,721,812)       | P226,168,001    |
| Issuance of capital stock                        | P500,000,000                             | P-   | P-  | P-                   | P500,000,000    |
| Total comprehensive loss                         | -  | -  | -   | (76,447,383)         | (76,447,383)    |
| Effect of reverse acquisition                    | (256,758,496)                            | 58,073,612                                     | 198,684,884                               | -                    | -               |
| Balance at December 31, 2017                     | P243,241,504                             | P58,073,612                                    | P198,684,884                              | (P76,447,383)        | P423,552,617    |

See accompanying Notes to the Consolidated Financial Statements.

**PH RESORTS GROUP HOLDINGS, INC.**  
**(Formerly Philippine H2O Ventures, Corp.) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | <b>Years Ended December 31</b> |                 |
|---|--------------------------------|-----------------|
|   | <b>2018</b>                    | <b>2017</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                           |                                |                 |
| Loss before income tax  | (P211,066,782)                 | (P75,661,775)   |
| Adjustments for:  |                                |                 |
| Interest expense (Note 8)   | 81,334,552                     | 15,654,302      |
| Interest income (Note 6)  | (18,131,138)                   | (12,053,748)    |
| Unrealized foreign exchange loss (gain)                               | 11,606,347                     | 16,613,055      |
| Gain on disposal of a subsidiary (Note 21)                            | (617,037)                      | —               |
| Depreciation (Notes 10, 15 and 16)                                    | 3,848,295                      | 507,512         |
| Loss before working capital changes                                   | (133,025,763)                  | (54,940,654)    |
| Decrease (increase) in:   |                                |                 |
| Trade and other receivables   | (2,929,550)                    | —               |
| Advances to related parties   | 339,611,120                    | (351,404,302)   |
| Inventories   | (1,761,369)                    | —               |
| Prepayments and other current assets                                  | (38,248,013)                   | (3,077,481)     |
| Increase (decrease) in accounts payable and other current liabilities | 209,193,377                    | 125,533,173     |
| Net cash generated from (used in) operations                          | 372,839,802                    | (283,889,264)   |
| Income taxes paid   | (591,800)                      | (1,288,732)     |
| Net cash provided by (used in) operating activities                   | 372,248,002                    | (285,177,996)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                           |                                |                 |
| Acquisition of property, plant and equipment (Note 10)                | (3,393,675,928)                | (463,741,058)   |
| Decrease (increase) in:   |                                |                 |
| Deposit for future property acquisition                               | 359,257,373                    | (470,687,867)   |
| Input value-added tax   | (258,943,861)                  | (21,914,225)    |
| Advances to suppliers   | (129,094,862)                  | (84,242,355)    |
| Other noncurrent assets   | (15,198,112)                   | —               |
| Transfer of cash to escrow fund                                       | (539,985,056)                  | (751,913,965)   |
| Interest received   | 26,187,614                     | 6,928,951       |
| Cash and cash equivalents of deconsolidated subsidiary (Note 21)      | (7,251,958)                    | —               |
| Net cash used in investing activities                                 | (3,958,704,790)                | (1,785,570,519) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                           |                                |                 |
| Advances from related parties   | 1,096,782,404                  | 129,367,293     |
| Payments of:  |                                |                 |
| Interest  | (97,251,107)                   | (26,330,758)    |
| Mortgage loan   | (1,296,629)                    | (343,827)       |
| Proceeds from:  |                                |                 |
| Bank loans  | 3,035,044,015                  | 1,650,255,600   |
| Mortgage loan   | 3,102,400                      | —               |
| Increase in retention payable   | 85,776,468                     | —               |
| Share issuance costs (Note 18)  | (65,650,064)                   | —               |
| Debt issuance costs (Note 13)   | (52,354,488)                   | —               |
| Proceeds from issuance of capital stock (Note 18)                     | —                              | 500,000,000     |
| Net cash provided by financing activities                             | 4,069,803,063                  | 2,252,948,308   |

(Forward)

|   | <b>Years Ended December 31</b> |                     |
|---|--------------------------------|---------------------|
|   | <b>2018</b>                    | <b>2017</b>         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>P483,346,275</b>            | <b>P182,199,793</b> |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>  | <b>473,280</b>                 | <b>(16,613,055)</b> |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING<br/>OF THE PERIOD - EFFECT OF REVERSE<br/>ACQUISITION</b> | <b>37,440,093</b>              | <b>—</b>            |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING<br/>OF THE PERIOD (Note 6)</b>                            | <b>165,586,738</b>             | <b>—</b>            |
| <b>CASH AND CASH EQUIVALENTS AT END<br/>OF THE PERIOD (Note 6)</b>                                  | <b>P686,846,385</b>            | <b>P165,586,738</b> |

*See accompanying Notes to the Consolidated Financial Statements.*



**PH RESORTS GROUP HOLDINGS, INC.**  
**(Formerly Philippine H2O Ventures, Corp.) AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**1. General Information**

**Corporate Information**

PH Resorts Group Holdings, Inc. (formerly Philippine H2O Ventures Corp. "PH Resorts", "Parent Company" or "H2O") was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on January 30, 2009. The common shares of the Parent Company are listed and traded in the Philippine Stock Exchange (PSE). The registered office address of the Parent Company is at GGDC Administrative Services Building, Clark Global City, Clark Freeport Zone, Pampanga.

On June 25, 2018, the Board of Directors (BOD) and the stockholders approved the following amendments to the Parent Company's Articles of Incorporation (AOI):

- Change of corporate name from Philippine H2O Ventures Corp. to PH Resorts Group Holdings, Inc.
- Change the primary purpose of H2O from "to invest in, purchase, or otherwise acquire and own, hold, use, develop, lease, sell, assign, transfer, mortgage, pledge, exchange, operate, enjoy or otherwise dispose of, as may be permitted by law, all properties of every kind, nature and description and wherever situated, including but not limited to real estate, whether improved or unimproved, agricultural and natural resource projects, buildings, warehouses, factories, industrial complexes and facilities; shares of stock, subscriptions, bonds, warrant, debentures, notes, evidences of indebtedness, and other securities and obligations of any corporation or corporations, associations, domestic or foreign, for whatever lawful to pay therefore stocks, bonds, debentures, contracts, or obligations, to receive, collect, and dispose of interest, dividends, and income arising from such property; and to possess and exercise in respect thereof all the rights, powers, and privileges of ownership, including complying with the provisions of Revised Securities Act" to "to subscribe, acquire, hold, sell, assign, or dispose of shares of stock and other securities of any corporation including those engaged in the hotel and/or gaming and entertainment business, without however engaging in the dealership of securities or in the stock brokerage business or in the business of an investment company, to the extent permitted by law, and to be involved in the management and operations of such investee companies; and to guarantee the obligations of its subsidiaries or affiliates or any entity in which the Corporation has lawful interest".
- Change of registered principal office address from 4th Floor, 20 Lansbergh Place Bldg., 170 Tomas Morato, Quezon City to GGDC Administrative Services Building, Clark Global City, Clark Freeport Zone, Pampanga, Philippines, 2023.
- Change the number of directors from seven to nine.
- Increase in authorized capital stock from ₱500.0 million, consisting of 500.0 million common shares with a par value of ₱1.00 per share to ₱8,000.0 million consisting of 8,000.0 million common shares with a par value of ₱1.00 per share.

The consolidated financial statements as at December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017 were authorized for issue by the BOD on March 29, 2019.

#### Change in Ownership of PH Resorts

On December 19, 2017, the Parent Company was notified by Jollville Holdings Corporation (JHC, former parent company of H2O) that the latter along with its subsidiaries and related parties will be selling all their shareholdings in the Parent Company representing 62.006% of the issued and outstanding capital of the Parent Company to Udenna Development Corporation (UDEVCO), or to any of the latter's subsidiaries or affiliates (the H2O Sale). One of the conditions to the H2O Sale is the implementation and completion by H2O of a spin-off by selling all of its existing business and assets, including shares and interest in its subsidiaries. The Parent Company shall also collect all receivables, settle all its obligations, assign its contractual interests, transfer or reassign all of its employees and settle and dissolve its retirement fund.

On February 21, 2018, Tubig Pilipinas Corp. (formerly Tabuk Water Corp, "TPC", a wholly-owned subsidiary of JHC), entered into a purchase agreement, subject to conditions, with the Parent Company to purchase the latter's shares and interests, in Calapan Waterworks Corporation (CWWC) consisting of 137,045,398 shares representing 99.75% of the issued and outstanding capital stock of CWWC for a total consideration of ₱442.0 million. On April 4, 2018, the Parent Company's stockholders approved the CWWC sale. On June 1, 2018, the Parent Company sold all of its shares and interests in CWWC to Tubig Pilipinas Corp. Accordingly, the Parent Company lost its control over CWWC.

On February 28, 2018, JHC and UDEVCO entered into a Share Purchase Agreement (SPA) to acquire 150,824,890 common shares representing 62.006% of the issued and outstanding common shares of H2O for a total purchase price of ₱647.9 million or ₱4.30 per share under the terms and conditions set forth in the SPA. On April 25, 2018, UDEVCO subsequently assigned all of its rights and obligations under the SPA to Udenna Corporation (Udenna, Ultimate Parent Company), a company incorporated in the Philippines. H2O will become a holding company for the tourism-related businesses of Udenna.

From April 30, 2018 to May 29, 2018, the tender offer commenced for the remaining 92,416,614 common shares, representing approximately 37.994% of the issued and outstanding common shares of H2O. Udenna conducted a tender offer for the remaining common shares. No other shareholders tendered their shares.

On June 1, 2018, upon completion of the tender offer and fulfillment of the conditions as provided in the SPA, the common shares of H2O were transferred to Udenna through a special block sale in PSE. Accordingly, on the same date, the Parent Company became a subsidiary of Udenna. All the assets and liabilities as of May 31, 2018 of the subsidiaries of the Parent Company were disposed through spin-off on June 1, 2018 as part of the conditions set forth in the SPA.

From June 13 to July 3, 2018, Udenna acquired additional 19,457,486 shares through a special block sale in PSE, effectively owning additional 7.994% ownership in H2O.

#### Change in Capital Structure and Group Reorganization

On June 27, 2018, Udenna and PH Resorts executed a deed of assignment wherein Udenna assigned, transferred, and conveyed 44,654,000 shares of PH Travel and Leisure Holdings Corp. (PH Travel, a wholly-owned subsidiary of Udenna), representing its 8.93% interest ownership, to PH Resorts in exchange for cash consideration in the amount of ₱406.4 million.

On the same date, Udenna and PH Resorts also executed a deed of assignment wherein Udenna assigned, transferred, and conveyed 455,346,000 shares of PH Travel, representing its 91.07% interest ownership, to PH Resorts in exchange for the issuance of 4,143,648,309 shares of PH Resorts to be issued at ₱1.00 par value per share for a total share swap consideration of ₱4,143.6 million (Share Swap Consideration). The Ultimate Parent Company shall apply the share swap consideration in payment of

its subscription to the additional shares in the capital stock of PH Resorts to be issued at the price of ₱1.00 per share from the proposed increase in the authorized capital stock of PH Resorts.

On December 10, 2018, the SEC approved the amendments in the Parent Company's AOI. The issuance of 4,143,648,309 shares of the Parent Company was made on December 26, 2018 and on the same date, the assignment of shares and equity share swap transaction became effective. Consequently, as at December 26, 2018, PH Travel became a legal subsidiary of PH Resorts.

#### Subsidiaries of PH Resorts

PH Travel was incorporated and registered with the SEC on January 3, 2017. PH Travel's registered office and principal place of business is located at 26th Floor, Fort Legend Towers, 3rd Ave, cor, 31st Street, Brgy. Bonifacio Global City, Taguig City. PH Travel's primary purpose is to invest in, purchase or otherwise acquire and own, hold, use, construct, develop, maintain, subdivide, sell, assign, lease and hold for investment, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including the management and operation of the activities conducted therein pertaining to general amusement and recreation enterprises, such as but not limited to resorts, clubhouses, and sports facilities, hotels, casino and gaming facilities, including all the apparatus, equipment and other appurtenances as may be related thereto or in connection therewith.

PH Travel holds investments in certain subsidiaries that are all incorporated in the Philippines and are engaged in businesses related to the main business of PH Travel. PH Travel and its subsidiaries shall herein be referred to as PH Travel Group.

As at December 31, 2018 and 2017, PH Travel holds ownership interests in the following entities incorporated in the Philippines:

| <i>Subsidiary Name</i>                        | <i>Nature of Business</i> | <i>Date of Incorporation</i> | <i>% of Ownership as at</i> |                          |
|---|---------------------------|------------------------------|-----------------------------|--------------------------|
|   |                           |                              | <i>December 31, 2018</i>    | <i>December 31, 2017</i> |
| LapuLapu Leisure, Inc. (L3)                   | Hotels, casino and gaming | January 25, 2017             | 100                         | 100                      |
| Aetos Air Philippines, Inc. (AAPI)            | Transportation            | February 24, 2017            | -                           | 100                      |
| Donatela Hotel Panglao Corp. (DHPC)           | Hotel and recreation      | November 7, 2017             | 100                         | 100                      |
| Donatela Resorts and Development Corp. (DRDC) | Hotel and recreation      | February 27, 2018            | 100                         | -                        |
| Clark Grand Leisure Corp. (CGLC)              | Hotels, casino and gaming | March 7, 2018                | 100                         | -                        |
| CD Treasures Holdings Corp. (CTHC)            | Holding company           | March 8, 2018                | 100                         | -                        |
| Davao PH Resorts Corp. (DPRC)                 | Hotel and recreation      | April 8, 2018                | 100                         | -                        |

On January 12, 2018, PH Travel sold its 100% interest ownership in AAPI to Udenna Management & Resources Corp. (a related party) for a consideration of ₱10.0 million which is equal to the investment cost of AAPI in PH Travel's books (see Note 6 and 19).

On December 26, 2018, as a result of the effectivity of the assignment of shares and equity share swap transaction, PH Travel Group became wholly-owned subsidiaries of PH Resorts.

#### Provisional Licenses

On May 3, 2017, Philippine Amusement and Gaming Corporation (PAGCOR) issued a Provisional License (License) authorizing L3 to develop of approximately 13.5 hectares in Mactan Islands, LapuLapu City, Cebu and to establish and operate casinos and engage in gaming activities. The term of L3's License shall be for a period of 15 years or until May 3, 2032, which may be renewed subject to the terms of conditions of the License.

On August 6, 2018, PAGCOR issued a Provisional License to CGLC for the development of an integrated tourism resort and to establish and operate a casino within Clark Freeport Zone.

Further details of the terms and commitments under the Provisional Licenses are included in Note 20.

#### Status of Operations

DHPC has commenced its hotel and restaurant operations in January 2018. All other entities within the Group is still in its pre-operating stages.

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## **2. Basis of Preparation and Statement of Compliance**

#### Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis. These consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest peso, unless otherwise indicated.

For statutory reporting purposes, the Parent Company prepares the consolidated financial statements every 31st of December.

#### Statement of Compliance

The consolidated financial statements of the Group as at December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by former Standing Interpretations Committee, the Philippine Interpretations Committee and the International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the Philippine SEC.

#### Basis of Consolidation

As at December 26, 2018, the equity share swap transaction between PH Resorts and PH Travel became effective. Because PH Resorts did not meet the definition of a business, PH Travel was deemed to be the acquirer for accounting purposes. The acquisition was accounted for similar to a reverse acquisition following the guidance provided by the standard. In a reverse acquisition, the legal parent, PH Resorts, is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary, PH Travel, is adjudged to be the entity that gained control over the legal parent. Accordingly, the consolidated financial statements of PH Resorts have been prepared as a continuation of the financial statements of the PH Travel and subsidiaries. The PH Travel Group has accounted for the acquisition of PH Resorts on December 26, 2018, which was the date when PH Travel acquired control of PH Resorts.

The comparative financial information for the year ended December 31, 2010 has not been presented in the consolidated financial statements as all companies within the PH Travel Group were incorporated in or after January 2017 and the effective date which PH Travel gained control on PH Resorts as described above was on December 26, 2018. The consolidated balance sheet as of December 31, 2017 presented in the consolidated financial statements as of December 31, 2018, for comparative purposes, are retroactively adjusted to reflect the legal capital (i.e. the number and type of capital stock issued, and additional paid-in capital) of PH Resorts. The adjustment, which is the difference between the capital structure of the PH Travel and PH Resorts, is recognized as part of equity reserve in the consolidated balance sheets as of December 31, 2018 and 2017, respectively.

In accounting for this transaction, the consolidated financial information will reflect the following:

- (a) The consolidated assets and liabilities of PH Travel Group (legal subsidiary/accounting acquirer) will be recognized and measured at carrying amount and the assets and liabilities of PH Resorts (legal parent/accounting acquiree) which only consist of cash and cash equivalents will be recognized and measured at acquisition cost.
- (b) The equity will reflect the combined equity of PH Travel Group and PH Resorts. However, the legal capital of PH Travel Group will be eliminated as the legal capital that will be reflected would be that of PH Resorts (legal parent);
- (c) The income statement for the current period should reflect that of PH Travel for the full period together with the post-acquisition results of PH Resorts; and
- (d) Any difference between the consideration transferred by PH Resorts and the legal capital of PH Travel Group that is eliminated is reflected as "Equity reserve".

Reverse acquisition applies only to the consolidated financial statements of PH Resorts. The Parent Company financial statements will continue to represent PH Resorts as a stand-alone entity as of December 31, 2018 and 2017.

The consolidated financial statements include the accounts of the Parent Company and the aforementioned subsidiaries (see Note 1) held directly or indirectly through wholly and majority-owned subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns.

When Company has less than a majority of the voting rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over the investee, including:

- Any contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company or its subsidiary's voting rights and potential voting rights

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions and gains and losses resulting from intra-group transactions and dividends are eliminated in full. Profit or loss and each

component of other comprehensive income (OCI) are attributed to the equity holders of the Company and to the noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance.

**Noncurrent Assets Held For Sale and Discontinued Operations**

The Group classifies noncurrent assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Noncurrent assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

Property and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statements of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statements of comprehensive income.

Additional disclosures are provided in Note 19 to the consolidated financial statements. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

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### **3. Changes in Accounting Policies and Financial Reporting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

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

■ **PFRS 9, *Financial Instruments***

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

The Group has applied PFRS 9 with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. The adoption of PFRS 9 did not have material impact on the consolidated financial statements.

a) *Classification and measurement*

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

The assessment of the Group's business model was made at the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are SPPI was based on the facts and circumstances at the initial recognition of the assets.

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

| PAS 39 Measurement Category | As at January 1, 2018 | PFRS 9 Measurement Category              |                |   |
|-----------------------------|-----------------------|--|----------------|---|
|                             |                       | Fair value through profit or loss (FVPL) | Amortized cost | Fair value through other comprehensive income (FVOCI) |
| Loans and receivables:      |                       |  |                |   |
| Cash and cash equivalents   | ₱165,576,738          | ₱—                                       | ₱165,576,738   | ₱—  |
| Trade and other receivables | 5,124,797             | —  | 5,124,797      | —   |
| Advances to related parties | 351,404,302           | —  | 351,404,302    | —   |
| Cash in escrow              | 751,913,965           | —  | 751,913,965    | —   |
| Total                       | ₱1,274,019,802        | ₱—                                       | ₱1,274,019,802 | ₱—  |

There were no changes to the classification and measurement of the financial liabilities. As at December 31, 2018 and 2017, the Group does not hold financial liabilities designated at FVPL.

b) *Impairment*

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. Impairment on cash and cash equivalents, accrued interest and cash in escrow has been measured on a 12-month expected loss basis and reflects short-term maturities of the exposures.

The Group considers that its high-grade cash and cash in equivalents, accrued interest and cash in escrow have low credit risk based on external credit ratings of the banks. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. The identified impairment loss was immaterial.

For advances to related parties, the ECL is based on the 12-month ECL. However, being due and demandable, the intercompany receivables, will attract a negligible ECL, since ECLs are only measured over the period in which the entity is exposed to credit risk. No other factors have been noted by the Group that would indicate that the advances are incapable of being repaid on demand, such that the borrower would default if the loan were called wherein the probability of default would be need to be set to 100%.

- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9, *Financial Instruments*, with PFRS 4
- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers.

The five-step model is as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and,
5. Recognize revenue as the entity satisfies a performance obligation.

PFRS 15 requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. There is no impact on the consolidated financial statements as at January 1, 2018 since most of the Group's subsidiaries either have not yet started their operations or have just started their operations during the year.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Clarification that measuring investees at FVTPL is an investment-by-investment choice
- Amendments to PAS 40, *Investment Property*, Transfers of Investment Property



- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Considerations*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

#### New Standards and Interpretation Issued and Effective after December 31, 2018

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective January 1, 2019*

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

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

- Amendments to PAS 19: *Employee Benefits, Plan Amendment, Curtailment or Settlement*

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
- Annual Improvements 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

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

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective Beginning on or After January 1, 2021*

- PFRS 17, *Insurance Contracts*

### *Deferred Effectivity*

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

### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current/noncurrent classification. An asset is current when:

- It is **expected** to be realized or intended to be sold or consumed in normal operating cycle
- It is held **primarily** for the purpose of trading
- It is **expected** to be realized within 12 months after the reporting period, or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is **expected** to be settled in normal operating cycle
- It is held **primarily** for the purpose of trading
- It is **due** to be settled within 12 months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

### Financial instruments

#### *Initial Recognition and Subsequent Measurement Prior to the Adoption of PFRS 9*

Financial instruments are initially recognized at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

- *Date of Recognition.* The Group recognizes a financial instrument in the statement of financial position on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets, recognition and disposals or retirements, as applicable, are recognized on the trade date, which is the date that the Group commits to purchase or dispose the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

- *Determination of Fair Value.* The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies.

Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 14.

- *"Day 1" Difference.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.
- *Financial Assets.* The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables, as appropriate. The classification depends on the purpose for which these were acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

All financial assets are recognized initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs.

The Group's financial assets include cash and cash equivalents, trade and other receivables, advances to related parties, and cash in escrow.

- a. *Financial Assets and Liabilities at FVPL.* Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets or liabilities may be designated by management at initial recognition as at FVPL if any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance are evaluated on a fair value basis in accordance with a documented risk management strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis that it would not be separately recorded.

Financial assets or liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized directly in the statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income according to the terms of the contract, or when the right of payment has been established.

The Group has no financial assets and liabilities at FVPL as at December 31, 2017.

- b. *Loans and Receivables.* Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR and transaction costs. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group's cash and cash equivalents, trade and other receivables, advances to related parties and cash in escrow are included in this category.

- c. *HTM Investments.* HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this category. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Gains and losses are recognized in the statement of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

The Group has no HTM investments as at December 31, 2017.

- d. *AFS Investments.* AFS investments are those nonderivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial measurement, AFS investments are measured at fair value, with unrealized gains or losses being recognized as OCI until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously reported in OCI is included in the statement of income. Unquoted equity instruments whose fair value cannot be reliably measured, are measured at cost.

The Group has no AFS investments as at December 31, 2017.

- **Financial Liabilities.** Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include loans payable, trade and other payables, and advances from related parties.

The measurement of financial liabilities depends on its classification.

**Other Financial Liabilities at Amortized Cost.** This includes the Group's loans payable, trade and other payables, and advances from related parties.

The Group has no financial liabilities at FVPL or derivatives designated as hedging instruments as of December 31, 2017.

**Subsequent Measurement.** After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any related issue costs, discount or premium.

Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

**Classification of Financial Instruments between Debt and Equity.** A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or,
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or,
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

**Impairment of Financial Assets.** The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

For loans and receivables carried at amortized cost, the Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset, together with the other assets that are not individually significant and, thus, were not individually assessed for impairment, is included in a group of financial assets with similar credit risk

[illegible]

1. *Introduction*

*Classification and Measurement upon Adoption of PFRS 9*

- **Classification of Financial Assets.** Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:
  - Financial assets measured at amortized cost
  - Financial assets measured at FVPL
  - Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
  - Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss
- **Contractual Cash Flows Characteristics.** If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

- **Business Model.** The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

- **Financial Assets at Amortized Cost.** A financial asset is measured at amortized cost if (a) it is held within a business model for which the objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included



in "Interest income" in the consolidated statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (a) purchased or originated credit-impaired financial assets and (b) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "Provision for credit and impairment losses" in the consolidated statement of comprehensive income.

As at December 31, 2018, the Group has financial assets at amortized cost consisting of cash and cash equivalents, trade and other receivables, advances to related parties, restricted fund, cash in escrow and security deposits.

- **Financial Assets at FVOCI.** A financial asset is measured at FVOCI if (a) it is held within a business model for which the objective is achieved by both collecting contractual cash flows and selling financial assets and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Group's right to receive payment of the dividend 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.

As at December 31, 2018, the Group does not have any financial assets under this category.

- **Financial Assets at FVPL.** Financial assets at FVPL are measured at FVPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVPL are initially recognized at fair value, with transaction costs recognized in the statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the statement of comprehensive income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL, and the gains or losses from disposal of financial investments.

As at December 31, 2018, the Group does not have any financial assets under this category.

- *Classification of Financial Liabilities.* Financial liabilities are measured at amortized cost, except for the following:
  - financial liabilities measured at fair value through profit or loss;
  - financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
  - financial guarantee contracts;
  - commitments to provide a loan at a below-market interest rate; and,
  - contingent consideration recognized by an acquirer in accordance with PFRS 3.

As at December 31, 2018, the Group's financial liabilities at amortized costs consist of loans payable, accounts payable and other liabilities, advances from related parties and retention payables.

A financial liability may be designated at FVPL if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or,
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVPL, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

As at December 31, 2018, the Group does not have any financial assets under this category.

*Reclassifications of Financial Instruments.* The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and,
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

### *Derecognition of Financial Instruments*

- **Financial Assets.** A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when, and only when:
  - the contractual rights to the cash flows from the financial asset expire, or,
  - the Group transfers the contractual rights to receive the cash flows of the financial asset in a transaction in which it either (a) transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and the Group has not retained control.

When the Group retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Group treats the transaction as a transfer of a financial asset if the Group:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and,
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor has transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

- **Modification of Contractual Cash Flows.** When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

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

**Offsetting Financial Instruments.** Financial instruments are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the balance sheet.

#### *Impairment of Financial Assets*

Prior to the adoption of PFRS 9, the Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- *Financial Assets Carried at Amortized Cost.* For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income in the statement of income. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

If a future write-off is later recovered, the recovery is credited to interest expense in the statement of comprehensive income.

Upon adoption of PFRS 9, the standard introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes ECL for the following financial assets that are not measured at FVPL:

- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and,
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and,
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

- *Stage 1: 12-month ECL.* For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.
- *Stage 2: Lifetime ECL - not credit-impaired.* For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.
- *Stage 3: Lifetime ECL - credit-impaired.* Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; or,
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

*Determination of the stage for impairment.* At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

#### Cash and Cash equivalents

Cash includes cash on hand and cash in banks. Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term placements and highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Cash and cash equivalents exclude any restricted cash (presented under "Restricted fund") that is not available for use by the Group and therefore is not considered highly liquid.

For the purpose of the statement of cash flows, cash and cash equivalents consist only of cash and cash equivalents as defined above.

#### Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined primarily on the basis of the moving average method. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and other costs necessary to make the sale.

In determining net realizable value, the Group considers any necessary adjustment for obsolescence.

#### Other Current Assets

Advances to suppliers, prepayments and deposits are amounts paid in advance for goods and services that are yet to be delivered and from which future economic benefits are expected to flow to the Group within its normal operating cycle or within 12 months from the reporting date.

Input value-added tax (VAT) represents VAT imposed on the Group by its suppliers for the acquisition of goods and services. Output VAT represents indirect tax on consumption levied on the sale of goods and services, which is passed on by the Group to its customers. Where VAT incurred on a purchase of asset or services is not recoverable from the taxation authority, such VAT is recognized as part of the cost of acquisition of the asset or part of the expense item, as applicable.

Input VAT on its construction costs and other purchase of asset or services expected to be recovered for more than a year upon the start of its commercial operations is recorded under Noncurrent assets portion in the consolidated statements of financial position.

#### Property and Equipment

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

Land is carried at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Cost includes interest related to the financing of property, plant and equipment during the construction period. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged against income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from

the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization, recognition of which commences when the asset becomes available for its intended use, are computed on a straight-line basis over the following estimated useful lives:

|  |            |
|--|------------|
| Land Improvements and Infrastructures    | 5-14 years |
| Buildings                                | 25 years   |
| Office Furniture, Fixtures and Equipment | 2-10 years |
| Transportation Equipment                 | 5-7 years  |
| Leasehold Improvements and Others        | 3 years    |

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

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

#### Advances to Suppliers

Advances to suppliers under Noncurrent Assets represent initial payments made to suppliers as mobilization funds for use in the construction of the Group's buildings and building improvements and are initially recognized at cost. These are subsequently reduced proportionately upon receipt of progress billings.

#### Impairment of Nonfinancial Assets

The carrying values of property and equipment and other non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the assets is the greater of fair value less cost to sell and value-in-use.

The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction while value-in-use is the present value of the estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss, unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is

adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Equity

*Capital Stock.* Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to additional paid-in capital. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. Any receivable is treated as deduction in the subscribed capital stock.

*Additional paid-in capital.* Additional paid-in capital pertains to proceeds and/or fair value of considerations received in excess of par value, if any, net of the transaction costs incurred as stock issuance costs.

*Deficit.* Deficit represents accumulated losses, net of earnings. The balance is also increase for incremental costs directly attributable to the issuance of new shares incurred in excess of additional paid-in capital.

*Equity reserve.* Equity reserve account pertains to the equity adjustments resulting from the effect of the reverse acquisition.

#### Revenue Recognition

Upon adoption of PFRS 15, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. Specifically, interest income is recognized as the interest accrues taking into account the effective yield on the asset.

The Group recognizes as revenue, the amount of the transaction price that is allocated to that performance obligation. Revenue is recorded net of trade discounts, estimates of other variable consideration and amounts collected on behalf of third parties.

Consideration payable to a customer is recognized as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group. If consideration payable to the customer is a payment for a distinct good or service from the customer, then the Group records such purchase of the good or service in the same way that it accounts for other purchases from suppliers.

#### Cost and Expenses

Costs and expenses are recognized when incurred. These are measured at the fair value of the consideration paid or payable.

#### Short-term Employee Benefits

Short-term employee benefits include items such as salaries and wages, social security contributions and nonmonetary benefits, that are expected to be settled wholly within twelve months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Group during the reporting period, the Group recognizes the undiscounted amount of short-term employee



benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. All other borrowing costs are expensed as incurred. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

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

#### Leases

The determination of whether the arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement depends on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease, only if any of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease expense is recognized in profit or loss on a straight-line basis over the terms of the lease agreements. Operating lease costs incurred on land, directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, is capitalized as part of CIP.

#### Income Taxes

*Current Income Tax.* Current income tax assets and income tax liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

*Deferred Income Tax.* Deferred income tax is provided using the balance sheet liability method on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred 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 income will allow the deferred tax assets to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

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

#### Foreign Currency Transactions and Translations

Transactions denominated in foreign currency are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at balance sheet date. Foreign exchange gains or losses are credited to or charged against current operations.

#### Related Party Transactions and Relationships

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

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

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

#### Earnings Per Share (EPS)

EPS is determined by dividing net profit for the year by the weighted average number of shares outstanding during the year including fully paid but unissued shares as of the end of the year, adjusted for any subsequent stock dividends declared. Diluted earnings per share is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares. The Group has no existing dilutive shares.

#### Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 25 to the consolidated financial statements.

#### Provisions

Provisions are recognized when: (1) the Group has a present obligation (legal or constructive) as a result of past events, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the effective future cash flows at a pretax rate that reflects current market assessment of

the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to the consolidated financial statements when an inflow of economic benefit is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income is recognized in the consolidated financial statements.

#### Events after the End of the Reporting Period

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

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#### **4. Significant Accounting Judgments, Estimates and Assumptions**

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. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances that are believed to be reasonable as of the date of comparable consolidated financial statements. While the Group believes that the assumptions are reasonable and appropriate, differences in actual experience or changes in the assumptions may materially affect the estimated amounts. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

#### Judgments

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.

#### *Determination of functional currency*

The functional currency of the Group is the currency of the primary economic environment in which it operates. It is the currency that mainly influences the revenue and cost of products. Based on the economic substance of the relevant underlying circumstances, the functional currency of the Group is the Peso.

*Identifying performance obligations in food and beverages and rooms revenues, a bundled sale of services.* The Group provides hotel services that are either sold separately or bundled together with the other services.

For its hotel service, the Group determined that each of the services is capable of being distinct. The fact that the Group regularly sells each service on a stand-alone basis indicates that the customer can benefit from both products on their own. The services are not highly interdependent or highly interrelated, because the Group would be able to transfer each service even if the customer declined the other. Consequently, the Group allocates the transaction price using the residual approach. Under this approach, the Group determines the stand alone selling price by relevance to the total transaction price and deducting the sum of the stand-alone selling price of food and beverages promised in the contract.

For its restaurant services, the Group records its service charge to the extent that it is viewed as an additional consideration for the services provided, and benefits directly inure to the restaurants thus, excluding the amounts collected on behalf of third parties.

*Determination of operating lease - Group as Lessee*

The Group has operating lease agreements on land and various equipment. The Group has determined that the risks and rewards of ownership for the underlying properties have been retained by the lessors. Accordingly, the leases are accounted for as operating leases (see Note 7).

*Capitalization of operating lease payments*

The Group determines whether the amount of operating lease costs qualify for capitalization as part of construction costs, or should be expensed outright. Management assessed that the rent on land is a directly attributable cost to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Lease payments capitalized as part of construction in progress amounted to ₱128.4 million and ₱63.1 million for the years ended December 31, 2018 and 2017, respectively (see Notes 7 and 9).

*Capitalization of Borrowing Cost:* The Group determines whether the amount of borrowing costs qualify for capitalization as part of the cost of the qualifying asset, or should be expensed outright. The accounting treatment for the finance costs is determined by assessing whether the asset is a qualifying asset taking into consideration the period of time to bring the asset ready for its intended use. Failure to make the right judgment will result in misstatement of assets and net profit.

Capitalized borrowing costs equivalent to the effective interests incurred on the loans amounted to ₱80.8 million and ₱10.7 million for the years ended December 31, 2018 and 2017, respectively (see Note 9)

*Transfer of risks and rewards over a property under conditional purchase*

In 2018 and 2017, the Group entered into contracts to sell, to acquire various parcels of land. The terms include the transfer of title only upon full payment of the agreed price as stated in the contract for DHPC and upon payment of 95% of the total purchase price as stated in the contract for DPRC. The contracts are subject to cancellation by the seller upon breach of the contract or default by the Group and the seller may forfeit the improvements therein. As at December 31, 2018 and 2017 the Group has paid approximately 89% and 42% of the agreed price, respectively on the contract to sell entered by DHPC and 40% on the contract to sell of DPRC. Hence, management believes that as of the same date, the risks and rewards of ownership of the properties have been retained by the sellers. Accordingly, installment payments totaling ₱111.4 million and ₱470.7 million as of the same date were presented as "Deposit for future property acquisition" in the consolidated statements of financial position (see Note 10).

Estimates and assumptions

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

*Estimation of probable losses on input VAT.* The Group estimates the level of provision for probable losses on input VAT based on the probability that the input VAT may be used in the future, taking into consideration the prescription period within which the Group can apply for a tax refund or tax credit. The carrying value of the input VAT (included under "Other current assets") amounting to ₱1.3 million pertaining to the Parent Company as at December 31, 2018 is assessed by management to be

recoverable as the Parent Company is expected to have an active participation in its subsidiaries' management.

*Estimation of useful lives of property and equipment*

The useful lives of the property and equipment are estimated based on the period over which the assets are expected to be available for use and for the collective assessment of industry practice and experience with similar assets. The estimated useful lives of property and equipment are reviewed at each financial year-end, and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and other limits on the use of the property and equipment.

The carrying value of the property and equipment as at December 31, 2018 and 2017 amounted to ₱3,932.2 million and ₱473.9 million, respectively.

*Determination of Fair Value of Financial Instruments.* Where the fair value of financial assets and liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair value of financial assets and financial liabilities are disclosed in Note 18.

*Determining Realizable Amount of Deferred Taxes*

The Group reviews the carrying amounts of its deferred income tax assets at the end of each balance sheet and recognized the deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. No deferred tax asset was recognized as of December 31, 2018 and 2017 as management has assessed that the related tax benefits may not be realized prior to its availment period (see Note 16).

## 5. Cash and Cash Equivalents

|                           | 2018                | 2017                |
|---------------------------|---------------------|---------------------|
| Cash on hand and in banks | ₱686,846,385        | ₱116,560,751        |
| Short-term placements     | –                   | 49,025,987          |
|                           | <b>₱686,846,385</b> | <b>₱165,586,738</b> |

Cash in banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest of 1.25% in 2018 and 2017.

Interest income earned on cash and cash equivalents amounted to ₱0.7 million and ₱3.1 million for the years ended December 31, 2018 and 2017, respectively.

The Group has cash in escrow amounting to ₱1,315.9 million and ₱751.9 million as at December 31, 2018 and 2017, respectively, which is presented under the Noncurrent Assets section of the consolidated statements of financial position. Interest income earned on cash in escrow amounted to ₱19.91 million and ₱8.94 million for the years ended December 31, 2018 and 2017, respectively. Accrued interest as at December 31, 2018 and 2017 amounted to ₱1.1 million and ₱5.1 million,

respectively, and is presented under the "Trade and other receivables" account in the consolidated statements of financial position (see Note 6). The Group's escrow account represents the aggregate balance of short-term placements maintained in local banks primarily to meet the requirements of the License Agreement with PAGCOR in relation to L3's and CGLC's investment commitments (see Note 20).

## 6. Trade and Other Receivables

|  | 2018               | 2017              |
|--|--------------------|-------------------|
| Trade  | ₱2,700,432         | ₱—                |
| Receivable from sale of a subsidiary<br>(see Notes 1 and 19) | 10,000,000         | —                 |
| Accrued interest receivables (see Note 5)                    | 1,078,944          | 5,124,797         |
| Others   | 207,508            | —                 |
|  | <b>₱13,986,884</b> | <b>₱5,124,797</b> |

Trade receivables are noninterest-bearing and are normally on a 30 to 120 days' term. Receivable from sale of a subsidiary is noninterest-bearing and collectible upon demand. Interest receivables are normally collectible within 120 days.

Other receivables are noninterest-bearing and include advances subject to liquidation and normally on a 30 to 120 days' term.

No provision for doubtful accounts was provided for the years ended December 31, 2018 and 2017.

## 7. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Outstanding balances at year-end are unsecured and non-interest bearing and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. The impairment on advances to related parties, is based on the 12-month ECL. However, being due and demandable, the intercompany receivables, will attract a negligible ECL, since ECLs are only measured over the period in which the entity is exposed to credit risk. No other factors have been noted by the Group that would indicate that the advances are incapable of being repaid on demand, such that the borrower would default if the loan were called wherein the probability of default would be need to be set to 100%. For the years ended December 31, 2018 and 2017, the Group has not recorded any impairment of receivables on amounts owed by the related parties.

The Group, in the normal course of business, has transactions with the following companies which have common members of BOD and stockholders as the Group:

| Relationship            | Name               |
|-------------------------|--------------------|
| Ultimate Parent Company | Udenna Corporation |

| Relationship                    | Name  |
|---------------------------------|---|
| (Forward)                       |   |
| Affiliates under Common Control | <p>Bunkers Manila Inc.<br/> CGLC Cultural Heritage Foundation, Inc.<br/> Chelsea Logistics Holdings Corp.<br/> Chelsea Shipping Corp.<br/> Dennison Holdings Corp.<br/> Enderun Hospitality Management and Consultancy Services (Enderun)<br/> L3 Concrete Specialist<br/> Lapulapu Cultural Heritage Foundation, Inc.<br/> LapuLapu Land Corp. (LLC)<br/> Phoenix Petroleum Philippines, Inc.<br/> Udenna Development Corporation<br/> Udenna Infrastructure Corp.<br/> Udenna Management &amp; Resources Corp.<br/> Udenna Water &amp; Integrated Services, Inc.<br/> UDEVCO LLC<br/> Value Leases Inc.</p> |

The consolidated statements of financial position include the following amounts with respect to the balances with related parties for the years ended December 31, 2018 and 2017:

|  | Year | Amount/<br>Volume of<br>Transaction | Outstanding Balance |             | Terms                     | Conditions |
|--|------|-------------------------------------|---------------------|-------------|---------------------------|------------|
|  |      |                                     | Receivable          | Payable     |                           |            |
| <b>Ultimate Parent Company</b>         |      |                                     |                     |             |                           |            |
| Cash advances to a related party       | 2018 | P105,000,000                        | P41,332,707         | P-          | Noninterest-bearing; not  | Unsecured  |
|  | 2017 | -                                   | -                   | -           | impaired; due and         |            |
|  |      |                                     |                     |             | demandable                |            |
| Cash advances from a related           | 2018 | 1,984,479,920                       | -                   | 942,195,175 | Noninterest-bearing; due  | Unsecured  |
| party for working capital and          | 2017 | 129,367,293                         | -                   | 129,367,293 | and demandable            |            |
| project completion                     |      |                                     |                     |             |                           |            |
| <b>Affiliates under Common Control</b> |      |                                     |                     |             |                           |            |
| Cash advances to related parties       | 2018 | 178,429,279                         | 3,735,636           | -           | Noninterest-bearing; not  | Unsecured  |
|  | 2017 | 1,533,184,517                       | 351,214,517         | -           | impaired; due and         |            |
|  |      |                                     |                     |             | demandable                |            |
| Cash advances from related             | 2018 | 265,107,825                         | -                   | P25,037,500 | Noninterest-bearing; due  | Unsecured  |
| parties                                | 2017 | -                                   | -                   | -           | and demandable            |            |
| Cash advances from related             | 2018 | 281,100,000                         | -                   | 191,941,996 | Interest-bearing; due and | Unsecured  |
| parties (a)****                        | 2017 | -                                   | -                   | -           | demandable                |            |
| Lease (see Notes 8                     | 2018 | 128,383,560                         | 40,398,414          | -           | Noninterest-bearing; due  | Unsecured  |
| and 9) (b)**                           | 2017 | 63,116,280                          | -                   | -           | and demandable            |            |
| Management and consultancy             | 2018 | 10,282,630                          | -                   | 3,472,533   | Noninterest-bearing; due  | Unsecured  |
| services (see Notes 12                 | 2017 | -                                   | -                   | -           | and demandable            |            |
| and 15) (c)***                         |      |                                     |                     |             |                           |            |
| Due from a related party for sale      | 2018 | 10,000,000                          | 10,000,000          | -           | Noninterest-bearing; due  | Unsecured  |
| of a subsidiary (see Notes 1           | 2017 | -                                   | -                   | -           | and demandable            |            |
| and 19)*                               |      |                                     |                     |             |                           |            |
| <b>Stockholder</b>                     |      |                                     |                     |             |                           |            |
| Cash advances to a stockholder         | 2018 | -                                   | -                   | -           | Noninterest-bearing; not  | Unsecured  |
|  | 2017 | 189,785                             | 189,785             | -           | impaired; due and         |            |
|  |      |                                     |                     |             | demandable                |            |
| Cash advances from a                   | 2018 | 135,000,000                         | -                   | 135,000,000 | Noninterest-bearing; due  | Unsecured  |
| stockholder                            | 2017 | -                                   | -                   | -           | and demandable            |            |

\*Outstanding balance is included in Trade and other receivables as at December 31, 2018.

\*\*\*Outstanding balance is included in Prepayments and other current assets as at December 31, 2018.

\*\*\*Outstanding balance is included in Trade and other payables as at December 31, 2018.

\*\*\*\*Outstanding interest is included in Trade and other payables as at December 31, 2018.

(a) *Interest-bearing cash advances from related parties*

For year ended December 31, 2018, various related parties granted advances to the Group amounting to ₱281.1 million to bridge operating requirements of the Group. The advances are payable on demand at 6.5% to 7% interest per annum. Principal of ₱104.0 million was paid as at December 31, 2018.

Interest expense incurred on these cash advances for the year ended December 31, 2018 amounted to ₱17.4 million. Out of the ₱17.5 million, ₱14.8 million is still unpaid and included in Interest Payables under "Trade and other payables" account in the consolidated statements of financial position as at December 31, 2018 (see Note 12).

(b) *Lease*

On July 14, 2017, L3 entered into a lease agreement with LLC, a related party under common ownership, for parcels of land with 116,882 square meters in Punta Engano, LapuLapu City, Cebu. On August 30, 2018, L3 entered into another lease agreement with LLC covering additional parcels of land in the property with 5,975 square meters.

The lease agreements are for a period of 25 years commencing upon the signing of the agreements and will be renewed for an additional 25 years at the option of L3. L3 shall pay a monthly aggregate of ₱10.5 million for the original contract and ₱0.5 million for the additional lease. L3 and LLC shall agree on an escalated rate of the consideration three years from the signing of the lease agreement and for every three-year interval thereafter. The most recent rental rate will be used as basis of the consideration in the event the parties fail to agree on an escalated rate at the end of each three-year interval.

The estimated annual minimum rentals under this lease agreement as at December 31, 2018 are shown below:

| Period  | Amount                |
|---|-----------------------|
| Within one year                                 | ₱132,685,560          |
| More than one year but not more than five years | 530,742,240           |
| More than five years                            | 2,462,211,360         |
|   | <u>₱3,125,639,160</u> |

Lease payments capitalized as part of CIP amounted to ₱128.4 million and ₱63.1 million for the years ended December 31, 2018 and 2017, respectively (see Note 9). As at December 31, 2018, the Group has prepaid rental payments to LLC amounting to ₱41.6 million presented as part of "Prepayments and other current assets" account in the consolidated statements of financial position (see Note 8).

(c) *Management fees*

DEPC entered into a Management Services Agreement in November 2017 for certain management and operational services with Enderun. Enderun manages the hotel operations starting January 2018 according to the terms and conditions set forth in the agreement as Enderun has substantial experience and knowledge of the operation of standard full service hotels throughout the Philippines. Management fees consist of basic management fee, incentive fee, marketing fee and corporate shared service fees (see Note 15).



(d) *Guarantees*

L3's bank loans with China Banking Corporation (CBC) are secured by a corporate guaranty by Udenna and by certain stockholders through a Continuing Surety Agreement with the bank (see Note 11).

The performance of the obligations of DHPC to United Coconut Planters Bank (UCPB) at any time under the loan agreement and the payment of the availments therein shall be the joint and several liability of the PH Travel and DHPC (see Note 11).

(e) *Compensation and Other Benefits of Key Management Personnel*

The compensation of key management personnel for the years ended December 31, 2018 and 2017 pertaining to short-term employee benefits amounted to ₱35.5 million and ₱7.1 million, respectively.

There are no other short-term and long-term benefits given to key management personnel.

## 8. Prepayments and Other Current Assets

|                              | 2018               | 2017              |
|------------------------------|--------------------|-------------------|
| Prepaid rent (see Note 7)    | 41,643,503         | —                 |
| Short-term security deposits | 9,529,758          | 220,000           |
| Advances to suppliers        | 4,403,210          | 650,000           |
| Input VAT                    | 3,401,868          | —                 |
| Prepaid insurance            | 1,604,853          | 43,391            |
| Prepaid expenses             | 1,307,457          | 805,136           |
| Creditable withholding taxes | 145,628            | —                 |
| Advances to employees        | 66,470             | 1,100,000         |
| Others                       | 460,374            | 258,954           |
|                              | <b>₱62,563,121</b> | <b>₱3,077,481</b> |

Prepaid rent, prepaid insurance and prepaid expenses are amortized on a periodic basis over a period not exceeding 1 year.

Short-term security deposits and rental deposits represent unsecured and noninterest-bearing deposits for use of equipment and for office rentals which are renewable annually.

Advances to suppliers represents downpayments made for contracts entered to suppliers which will be applied to future billings upon completion of the contract within a year.

Advances to employees and other current assets represent unsecured, noninterest-bearing cash advances for business-related expenditures and are subject to liquidation.

9. Property and Equipment

|   | 2018           |                                       |             |  |                          |                                   |
|---|----------------|---------------------------------------|-------------|--|--------------------------|-----------------------------------|
|   | Land           | Land Improvements and Infrastructures | Building    | Office Furniture, Fixtures and Equipment | Transportation Equipment | Leasehold Improvements and Others |
| <b>Cost</b>   |                |                                       |             |  |                          |                                   |
| Beginning balances                                      | P-             | P-                                    | P-          | P686,905                                 | P3,767,750               | P165,875                          |
| Additions   | 1,027,200,819  | 8,055,377                             | 68,532,916  | 28,294,020                               | 3,045,069                | 5,346,648                         |
| Effect of deconsolidation of a subsidiary (see Note 19) | -              | -                                     | -           | -  | (1,872,321)              | -                                 |
| Ending balances   | 1,027,200,819  | 8,055,377                             | 68,532,916  | 28,900,925                               | 4,940,498                | 5,712,523                         |
| <b>Accumulated Depreciation</b>                         |                |                                       |             |  |                          |                                   |
| Beginning balances                                      | -              | -                                     | -           | 22,527                                   | 471,162                  | 13,823                            |
| Additions (see Note 15)                                 | -              | 191,795                               | 1,001,857   | 1,658,105                                | 575,813                  | 330,726                           |
| Effect of deconsolidation of a subsidiary (see Note 19) | -              | -                                     | -           | -  | (218,439)                | -                                 |
| Ending balances   | -              | 191,795                               | 1,001,857   | 1,680,632                                | 828,536                  | 344,549                           |
| Net Book Value  | P1,027,200,819 | P7,863,582                            | P67,441,059 | P27,300,293                              | P4,111,962               | P5,367,974                        |
|   |                |                                       |             |  | P2,792,954,203           | P3,933,259,892                    |

|   | 2017 |                                       |          |  |                          |                                   |
|---|------|---------------------------------------|----------|--|--------------------------|-----------------------------------|
|   | Land | Land Improvements and Infrastructures | Building | Office Furniture, Fixtures and Equipment | Transportation Equipment | Leasehold Improvements and Others |
| <b>Cost</b>   |      |                                       |          |  |                          |                                   |
| Beginning balances                                      | P-   | P-                                    | P-       | P686,905                                 | P3,767,750               | P165,875                          |
| Additions   | -    | -                                     | -        | 22,527                                   | 471,162                  | 13,823                            |
| Effect of deconsolidation of a subsidiary (see Note 15) | -    | -                                     | -        | -  | -                        | -                                 |
| Ending balances   | P-   | P-                                    | P-       | P664,378                                 | P3,296,588               | P152,052                          |
| Net Book Value  | P-   | P-                                    | P-       | P664,378                                 | P3,296,588               | P152,052                          |
|   |      |                                       |          |  | P4,69,796,984            | P473,910,002                      |

The CIP account mainly pertains to the US\$300.0 million (approximately ₱14,976.9 million) investment commitment required by the License Agreement with PAGCOR. The cost of the Project includes land acquisition costs, costs related to securing development rights, construction, development costs and all other expenses directly related to the completion of the Project. The account also includes capitalized borrowing costs amounting to ₱80.8 million and ₱10.7 million for the years ended December 31, 2018 and 2017, respectively, equivalent to the effective interests incurred on the loans (see Note 11). Lease payments capitalized as part of CIP amounted to ₱128.4 million and ₱63.1 million for the years ended December 31, 2018 and 2017, respectively (see Note 7).

Advance payments made to suppliers by the Group in relation to the construction of the project amounted to ₱213.3 million and ₱84.2 million as at December 31, 2018 and 2017, respectively, while payable to contractors amounted to ₱309.7 million and ₱102.4 million as at those periods, respectively (see Note 12). Retention payable to suppliers and contractors related to the construction project amounted to ₱85.8 million as at December 31, 2018 (nil as at December 31, 2017).

DHPC's land, land improvements and infrastructures and building are used as a real estate mortgage for the long-term loan acquired from UCPB (see Note 11).

Pursuant to the bank loans, L3 entered into a real estate mortgage and chattel mortgage indenture over the property and equipment to collateralize its bank loans. The carrying value of properties used as collateral amounted to ₱2,786.9 million and ₱469.8 million as at December 31, 2018 and December 31, 2017 (see Note 11).

The Group has no idle and fully depreciated property and equipment as at December 31, 2018 and 2017.

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#### **10. Deposit for Future Property Acquisition**

On October 18, 2017, DHPC entered into a contract to sell, to acquire various parcels of land situated in Tawala, Panglao and in Tagbilaran, with a total area of 74,578 square meters. The parcels of land contain improvements, consisting of several structures/buildings, walkways, gardens, as well as fixtures, furniture, and other personal properties and accessories owned by the seller.

The Deeds of Absolute Sale for the 67,853 square meters were executed in August 2018 for a total consideration amounting to ₱1,033.2 million which were subsequently reclassified as property and equipment. Remaining deposit for the future property acquisition amounting to ₱26.8 million pertains to the partial settlement of the total purchase price for the remaining area of 6,725 square meters. As at December 31, 2018 and 2017, DHPC has already paid ₱1,060.0 million and ₱470.7 million, respectively, which represents 89% and 42%, respectively, of the total purchase price.

On April 20, 2018, the DPRC entered into a contract to sell, to acquire various parcels of land in Lanang, Davao City with a total area of 3,134 square meters. The Deed of Absolute Sale for the parcel of land to be acquired in Lanang shall be executed upon payment of 95% of the total purchase price of ₱211.5 million. As at December 31, 2018, DPRC has already paid ₱84.6 million, which represents 40% of the total purchase price.

The Group expects to settle the full purchase price of both properties in 2019.

## 11. Loans Payable

|                                       | 2018           | 2017           |
|---------------------------------------|----------------|----------------|
| Short-term loans                      | ₱3,848,015,068 | ₱1,648,590,000 |
| Long-term loan                        | 963,330,444    | -              |
| Mortgage loans                        | 3,127,545      | 1,321,773      |
|                                       | 4,814,473,057  | 1,649,911,773  |
| Less current portion of loans payable | 3,849,608,994  | 1,649,124,684  |
| Noncurrent portion of loans payable   | ₱964,864,063   | ₱787,089       |

### Short-term loans

On June 7, 2017, L3 obtained bank loans from CBC to fund the escrow requirement of the Provisional License (see Notes 5 and 20) and to fund the construction of the first phase of the integrated resort, hotel and casino in Lapu Lapu City, Cebu. The loan amounting to US\$15.0 million that was used to finance the escrow requirement bears an annual interest of 3.5% to 6.25% while the second loan amounting to ₱900.0 million that was used to mainly fund the construction bears an annual interest of 4.75% to 6.25%.

On October 2018, in connection with the refinancing of the U.S.\$15 million and ₱900 million facilities, CBC approved a one-year bridge loan facility that extended the tenor of L3's short-term facilities to fund (i) the escrow required to be maintained by L3 pursuant to the Emerald Provisional License and (ii) the construction of the Project. The facility is comprised of (a) a Peso loan facility in the aggregate principal amount of up to ₱3.1 billion, and (b) a Dollar loan facility in the aggregate principal amount of up to U.S.\$15.0 million. The Peso and Dollar facilities were fully drawn on November 26, 2018 bearing interest rates of 9.55% and 6.25%, respectively.

The details of the short-term loans, which will be due for payment on November 21, 2019, as at December 31, 2018 are as follows:

|                                   |                |
|-----------------------------------|----------------|
| Principal                         | ₱3,888,700,000 |
| Less unamortized debt issue costs | 40,684,932     |
|                                   | ₱3,848,015,068 |

As at December 31, 2018, restricted fund of ₱140.0 million from the proceeds of the short-term loans as construction costs account by CBC is presented as "Restricted Fund" in the consolidated statements of financial position. This will be released in installments upon presentation of invoices for the payment of relevant construction costs in relation to the investment commitment as part of the requirements of PAGCOR (see Note 20).

The terms of the CBC bridge loan facility contain covenants that restrict the ability of each of LLC and L3 to, among other things, create or incur certain indebtedness or liens in respect of its property or assets, consolidate or merge with other entities, redeem shares or repay subordinated indebtedness if such redemption or repayment would result in a debt to equity ratio of greater than 2.33 to 1.0 (on a combined basis), lend money or credit or provide any guarantee, enter into certain profit-sharing arrangements, make voluntary prepayments in respect of its long-term indebtedness, engage in certain activities or incorporate subsidiaries, maintain certain bank accounts, incur certain capital expenditure, issue additional shares without consent, pay interest and dividends, or amend the development or project implementation plans of the Project without consent. In addition, each of LLC and L3 is required to maintain on a combined basis a debt to equity ratio of not more than 2.33 to 1.0, maintain its property and insurance, and ensure exclusive use of the Project site.

L3's loans are secured by a corporate guaranty of Udenna and by certain stockholders through a Continuing Surety Agreement with CBC (see Note 7). Failure by Udenna or by certain stockholders to repay indebtedness pursuant to agreements unrelated to L3 could trigger a cross default provision.

The carrying value of properties used as collateral amounted to ₱2,786.9 million and to ₱469.8 million as at December 31, 2018 and December 31, 2017 (see Note 9).

The Group, through L3, and CBC are in the process of syndication for a term loan facility. Upon securing this term loan facility, the Group expects to use the proceeds of such loan to refinance the CBC bridge loan facility and in part fund the ongoing construction and fit-out of the first phase of the Project.

Interest charges incurred on these loans for the years ended December 31, 2018 and 2017, amounted to ₱118.7 million and ₱26.3 million, respectively. The capitalized borrowing costs from the total interest charges amounted to ₱80.8 million and ₱10.7 million for the years ended December 31, 2018 and 2017, respectively, equivalent to the effective interest of the ₱3.1 billion loans. Capitalized borrowing costs are included as part of CIP under the "Property and equipment" account in the consolidated statements of financial position (see Note 9).

#### Long-term loan

On September 3, 2018, UCPB granted DHPC a ₱975.0 million term loan with a term of 10 years. DHPC used the proceeds to refinance the acquisition of the hotel resort in Tawala, Panglao Bohol which was initially funded using the advances from DHPC's related parties.

The details of the long-term loan as at December 31, 2018 is as follows:

|                                   |                     |
|-----------------------------------|---------------------|
| Principal                         | ₱975,000,000        |
| Less unamortized debt issue costs | 11,669,556          |
|                                   | <u>₱963,330,444</u> |

The loan will be repaid in 32 equal quarterly installments commencing on the 27th month from loan drawdown. In the event of voluntary prepayment of the loans, the DHPC shall pay the principal and accrued interest. In addition, any prepayment made before the second anniversary date of the loan from the date of the initial availment shall be subject to a penalty equivalent to two percent (2%) of the amount to be prepaid, per annum. Each partial voluntary prepayment shall be applied against repayment installments of the loan in the inverse order of their maturity.

The loan bears an annual interest rate based on the one-year Philippine Dealing System Treasury-Reference Rate PM (PDST-R2) at the time of availment or resetting, as the case maybe, plus a spread of 3.0% per annum. In no case, however, shall the interest be lower than 6.0% per annum. Interest shall be subject to resetting on the anniversary date of the availment and every year thereafter. Interest expense incurred on this loan for the year ended December 31, 2018 amounted to ₱25.9 million.

The loan is secured by a real estate mortgage over the financed properties and the pledge of all the shares of stock issued by DHPC (see Note 9).

DHPC must comply with certain financial covenants for the term of the loan, including maintaining a Debt Service Coverage Ratio of at least 1.25x and a Debt to Equity Ratio of not exceeding 2.33x.

The performance of the obligations of DHPC due to UCPB at any time under the loan agreement and the payment of the availments therein shall be the joint and several liability of the PH Travel and DHPC (see Note 7).

**Mortgage loans**

In 2018 and 2017, the Group entered into various mortgage loan agreements with local banks to finance the acquisitions of transportation equipment amounting to P3.7 million and P1.9 million, respectively. The loans bear effective interest rate of 11.86% and 8.50% per annum, and 8.50% per annum for the years ended December 31, 2018 and 2017, respectively and will mature in 3 years.

The details of the loans are as follows:

|  | 2018              | 2017       |
|--|-------------------|------------|
| Mortgage loans                                   | <b>P3,127,545</b> | P1,321,773 |
| Less current portion of mortgage loans payable   | <b>1,593,925</b>  | 524,684    |
| Noncurrent portion of the mortgage loans payable | <b>P1,533,620</b> | P797,089   |

Interest expense incurred on these loans for the years ended December 31, 2018 and 2017, amounted to P0.2 million and P0.1 million, respectively.

## 12. Accounts Payable and Other Current Liabilities

|                                       | 2018                | 2017         |
|---------------------------------------|---------------------|--------------|
| Payable to contractors (see Note 9)   | <b>P309,651,085</b> | P102,387,744 |
| Interest payable (see Notes 7 and 11) | <b>54,241,605</b>   | —            |
| Statutory payables                    | <b>10,317,848</b>   | 23,140,959   |
| Trade payables                        | <b>9,680,371</b>    | —            |
| Management fees payable (see Note 7)  | <b>3,472,533</b>    | —            |
| Advances from customers               | <b>1,384,988</b>    | —            |
| Others                                | <b>8,507,883</b>    | 4,470        |
|                                       | <b>P397,256,313</b> | P125,533,173 |

Below are the terms and conditions of the liabilities:

- Payable to contractors are noninterest-bearing and normally settled within three months.
- Interest payables, statutory payables, trade payables, and management fees payable are noninterest-bearing and are normally settled within the following month.
- Advances from customers and other payables are noninterest-bearing and are normally settled within the following month.

### 13. Equity

#### Capital Stock

The Parent Company's common shares (at ₱1 par value per share) as at December 31, 2018 and December 31, 2017 consist of the following:

|                            | 2018             |                | 2017             |              |
|----------------------------|------------------|----------------|------------------|--------------|
|                            | Number of shares | Amount         | Number of shares | Amount       |
| Authorized                 | 8,000,000,000    | ₱8,000,000,000 | 243,241,504      | ₱243,241,504 |
| Subscribed                 | 4,793,266,504    | 4,793,266,504  | 243,241,504      | 243,241,504  |
| Subscription receivables   | (406,376,691)    | (406,376,691)  | -                | -            |
| Issued and outstanding     | 4,386,889,813    | 4,386,889,813  | 243,241,504      | 243,241,504  |
| Additional paid-in capital | -                | -              | -                | 58,073,612   |
| Paid-up capital            | 4,386,889,813    | 4,386,889,813  | 243,241,504      | 301,315,116  |

On June 25, 2018, the BOD and the stockholders approved the increase in authorized capital stock from ₱500,000,000, consisting of 500,000,000 common shares with a par value of ₱1.00 per share to ₱8,000,000,000 consisting of 8,000,000,000 common shares with a par value of ₱1.00 per share.

As discussed in Notes 1 and 2, Udenna and PH Resorts executed a deed of assignment on June 27, 2018 wherein Udenna assigned, transferred and conveyed 100% equity interests of Udenna in PH Travel consisting of 500,000,000 issued and outstanding common shares with a par value of ₱1.00 per share in exchange for (a) 4,143,648,309 shares with a par value of ₱1.00 per share to be issued by the Parent Company to Udenna out of the Parent Company's increase in authorized capital stock, and (b) cash of ₱406.38 million.

On December 10, 2018, the SEC approved the application of increase in authorized capital stock (see Note 1). The issuance of 4,143,648,309 shares of the Parent Company occurred on December 26, 2018 and on the same date, the assignment of shares and equity share swap transaction became effective. Consequently, as at December 26, 2018, PH Travel became a legal subsidiary of PH Resorts.

Incremental costs of ₱69.2 million directly attributable to the issuance of shares was deducted from the additional paid-in capital of ₱58.1 million. The excess of ₱11.1 million was added to deficit as at December 31, 2018.

On December 21, 2018, 406,376,691 shares were subscribed with a par value of ₱1.00 per share. The subscription receivables amounting to ₱406,376,691 remain uncollected as at December 31, 2018.

#### Equity Reserve

The amount of equity reserve consists of the net difference between the cost of PH Resorts to acquire PH Travel Group and the legal capital of the latter (i.e., common stock and additional paid-in capital) at the date of reverse acquisition of PH Resorts as at December 26, 2018, the date of effectivity of the share swap transaction.

The equity reserve is accounted for as follows:

|  | 2018             | 2017          |
|--|------------------|---------------|
| Issuance of additional shares of PH Resorts    | ₱4,143,648,309   | ₱301,315,116  |
| Cash consideration                             | 406,351,691      | -             |
| Total consideration transferred by PH Resorts  | 4,550,000,000    | ₱301,315,116  |
| Elimination of PH Travel Group's legal capital | (500,000,000)    | (500,000,000) |
|  | (₱4,050,000,000) | ₱198,684,884  |

#### 14. Other Direct Costs and Expenses

|                              | 2018       | 2017 |
|------------------------------|------------|------|
| Commissions                  | 3,141,803  | -    |
| Departmental expenses        | 1,073,167  | -    |
| Recreation and entertainment | 382,488    | -    |
| Travel and transportation    | 167,957    | -    |
| Miscellaneous                | 198,122    | -    |
|                              | ₱4,963,537 | ₱-   |

#### 15. Operating Expenses

|                                  | 2018         | 2017        |
|----------------------------------|--------------|-------------|
| Salaries and wages (Note 7)      | ₱63,714,054  | ₱10,142,510 |
| Taxes and licenses               | 34,609,756   | 22,880,289  |
| Management fees (Note 7)         | 10,282,630   | -           |
| Professional fees                | 9,761,974    | 10,474,747  |
| Transportation and travel        | 9,017,535    | 5,128,166   |
| Utilities and communications     | 8,782,327    | -           |
| Outside Services                 | 7,403,162    | -           |
| Repairs and maintenance          | 7,070,415    | -           |
| Sales marketing and advertising  | 5,389,905    | -           |
| Organization fees                | 4,706,286    | -           |
| Representation and entertainment | 3,641,007    | 2,908,302   |
| Depreciation (see Note 9)        | 3,848,296    | 507,512     |
| Rentals                          | 2,711,197    | 440,000     |
| Office supplies                  | 1,433,826    | -           |
| Insurance                        | 1,333,782    | -           |
| Miscellaneous                    | 1,455,952    | 2,917,249   |
|                                  | ₱175,162,104 | ₱55,398,775 |



## 16. Income Taxes

- a. The current provision for income tax pertains to final withholding taxes on interest income.
- b. The components of the Group's net deferred income tax assets and liabilities are as follows:

|                                       | 2018          | 2017     |
|---------------------------------------|---------------|----------|
| Deferred tax assets:                  |               |          |
| Advances from a customer              | ₱415,497      | ₱-       |
| NOLCO                                 | -             | 503,124  |
|                                       | 415,497       | 503,124  |
| Deferred tax liabilities:             |               |          |
| Debt issuance costs                   | 15,706,458    | -        |
| Unrealized foreign exchange gain      | 353,740       | -        |
|                                       | 16,060,198    | -        |
| Net deferred tax assets (liabilities) | (₱15,644,701) | ₱503,124 |

The deferred tax asset and liabilities were measured using the appropriate corporate income tax rate on the year these are expected to be reversed.

- c. The reconciliation between the benefit from income tax computed at statutory income tax rate and the provision for income tax shown in the consolidated statements of comprehensive income is as follows:

|  | 2018          | 2017          |
|--|---------------|---------------|
| Benefit from income tax computed at statutory income tax rate of 30% | (₱61,514,883) | (₱22,698,533) |
| Tax effects of:  |               |               |
| Movement in NOLCO for which no deferred tax asset was recognized     | 59,119,490    | 25,811,534    |
| Debt issuance costs  | 15,706,458    | -             |
| Nondeductible expenses   | 8,163,547     | -             |
| Interest income subjected to final tax                               | (3,089,009)   | (2,327,392)   |
| Share issuance costs   | 1,051,481     | -             |
| Nontaxable income  | (185,111)     | -             |
|  | ₱19,251,973   | ₱785,608      |

The Group did not recognize DTA amounting to ₱84.9 million and ₱25.8 million as at December 31, 2018 and 2017, respectively, on the temporary difference arising from NOLCO since management believes that it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized. The NOLCO incurred by the Group can be claimed against future taxable income until 2021 and 2020, respectively.

As at December 31, 2018 and 2017, NOLCO of the Group for which deferred tax asset has not been recognized, can be applied against future taxable income within the periods shown below:

| Year Incurred | Expiry Date       | Amount       | Applied/<br>Expired | Unused       |
|---------------|-------------------|--------------|---------------------|--------------|
| 2017          | December 31, 2020 | ₱86,038,446  | ₱-                  | ₱86,038,446  |
| 2018          | December 31, 2021 | 197,064,964  | -                   | 197,064,964  |
|               |                   | ₱283,103,410 | ₱-                  | ₱283,103,410 |

## 17. Financial Risks Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The other financial assets and liabilities arising from its operations are trade and other receivables, security deposits, advances from and to related parties, restricted fund, cash in escrow, trade and other liabilities, loans payable and retention payables.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below:

**Credit Risk.** Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by trading only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The table below shows the maximum exposure to credit risk for the Group's financial assets, without taking account of any collateral and other credit enhancements:

|                             | 2018           | 2017           |
|-----------------------------|----------------|----------------|
| Cash and cash equivalents*  | ₱686,386,451   | ₱165,576,738   |
| Trade and other receivables | 13,986,884     | 5,124,797      |
| Advances to related parties | 45,068,343     | 351,404,302    |
| Security deposit**          | 16,329,758     | -              |
| Restricted fund             | 139,955,985    | -              |
| Cash in escrow              | 1,315,918,771  | 751,913,965    |
| Total credit risk exposure  | ₱2,217,646,192 | ₱1,274,019,802 |

\*Excluding cash on hand

\*\*Presented under "Prepaid and other current assets" and "Other noncurrent assets" accounts in the consolidated statements of financial position.

The financial assets of the Group are neither past due nor impaired and have high probability of collection as at December 31, 2018 and 2017.

**Credit Quality per Class of Financial Asset.** The credit quality of financial asset is being managed by the Group using internal credit ratings. The table below shows the maximum exposure to credit risk for the Group's financial instruments by credit rating grades:

|                       | 2018                    |                            |                            |                                     |   | 2017           |
|-----------------------|-------------------------|----------------------------|----------------------------|-------------------------------------|---|----------------|
|                       | Stage 1<br>12-month ECL | Stage 2<br>Lifetime<br>ECL | Stage 3<br>Lifetime<br>ECL | Purchased<br>or credit-<br>impaired | Lifetime<br>ECL<br>Simplified<br>Approach | Total          |
| High grade            | P2,143,340,151          | P-                         | P-                         | P-                                  | P-  | P2,143,340,151 |
| Medium grade          | 74,306,041              | -                          | -                          | -                                   | -   | 74,306,041     |
| Standard grade        | -                       | -                          | -                          | -                                   | -   | -              |
| Default               | -                       | -                          | -                          | -                                   | -   | -              |
| Gross carrying amount | 2,217,646,192           | -                          | -                          | -                                   | -   | 2,217,646,192  |
| Loss allowance        | -                       | -                          | -                          | -                                   | -   | -              |
| Carrying amount       | P2,217,646,192          | P-                         | P-                         | P-                                  | P-  | P2,217,646,192 |

Financial assets classified as "high grade" are those cash and cash equivalents, accrued interest, restricted fund and cash in escrow transacted with reputable local banks and financial assets with no history of default on the agreed contract terms while "medium grade" includes those financial assets being collected on due dates with an effort of collection. Financial instruments classified as "standard grade" are those financial assets with little history of default on the agreed terms of the contract.

A financial asset is considered past due when a counterparty has failed to make a payment when contractually due. "Past due but not impaired" financial assets are items with history of frequent default. Nevertheless, the amounts due are still collectible. Lastly, "Impaired" items are those that are long outstanding and have been specifically identified as impaired.

An aging analysis of financial assets per class are as follows:

|                             | 2018                             |                              |          | Total          |
|-----------------------------|----------------------------------|------------------------------|----------|----------------|
|                             | Neither Past Due<br>nor Impaired | Past Due but<br>not impaired | Impaired |                |
| Cash and cash equivalents*  | P686,386,451                     | P-                           | P-       | P686,386,451   |
| Trade and other receivables | 13,986,884                       | -                            | -        | 13,986,884     |
| Advances to related parties | 45,068,343                       | -                            | -        | 45,068,343     |
| Security deposits**         | 16,329,758                       | -                            | -        | 16,329,758     |
| Restricted fund             | 139,955,985                      | -                            | -        | 139,955,985    |
| Cash in escrow              | 1,315,918,771                    | -                            | -        | 1,315,918,771  |
|                             | P2,217,646,192                   | P-                           | P-       | P2,217,646,192 |

\*Excluding cash on hand

\*\*Presented under "Prepaid and other current assets" and "Other noncurrent assets" accounts in the consolidated statements of financial position.

|                             | 2017                             |                              |           |                       |
|-----------------------------|----------------------------------|------------------------------|-----------|-----------------------|
|                             | Neither Past Due<br>nor Impaired | Past Due but<br>not impaired | Impaired  | Total                 |
| Cash and cash equivalents*  | P165,576,738                     | P-                           | P-        | P165,576,738          |
| Trade and other receivables | 5,124,797                        | -                            | -         | 5,124,797             |
| Advances to related parties | 351,404,302                      | -                            | -         | 351,404,302           |
| Cash in escrow              | 751,913,965                      | -                            | -         | 751,913,965           |
|                             | <b>P1,274,019,802</b>            | <b>P-</b>                    | <b>P-</b> | <b>P1,274,019,802</b> |

\*Excluding cash on hand

**Liquidity Risk.** Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet or settle its obligations at a reasonable price.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances to related parties. The Group maintains sufficient cash to finance its operations.

The Group maintains a financial strategy that the scheduled debts are within the Group's ability to generate cash from its business operations. In addition, sufficient volume of sales is pursued through its operating entity to create enough profit and cash flows to meet all of the Group's maturing obligations.

The table below summarizes the maturity profile of the Group's financial liabilities (principal and interest) as at December 31, 2018 and 2017, based on contractual undiscounted payments. The table also analyses the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments and liquidity.

|                                | December 31, 2018     |                         |                       |                         |
|--------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
|                                | Due and<br>Demandable | Less Than<br>One Year   | More than<br>One Year | Total                   |
| Cash and cash equivalents*     | P686,386,451          | P-                      | P-                    | P686,386,451            |
| Trade and other receivables    | 10,000,000            | 3,986,884               | -                     | 14,008,494              |
| Advances to related parties    | 45,068,343            | -                       | -                     | 45,068,343              |
| Security deposits**            | -                     | 9,529,758               | 6,800,000             | 16,329,758              |
| Restricted fund                | -                     | 139,955,985             | -                     | 139,955,985             |
| Cash in escrow                 | -                     | -                       | 1,315,918,771         | 1,315,918,771           |
|                                | <b>P741,454,794</b>   | <b>P153,472,627</b>     | <b>P1,322,718,771</b> | <b>P2,217,646,192</b>   |
| Loans payable****              | -                     | 4,243,851,910           | 1,648,107,310         | 5,891,959,220           |
| Trade and other liabilities*** | -                     | 386,938,353             | -                     | 386,938,353             |
| Retention payable              | -                     | -                       | 85,776,468            | 85,776,468              |
| Advances from related parties  | 1,279,330,655         | -                       | -                     | 1,279,332,676           |
|                                | <b>1,279,330,655</b>  | <b>4,630,790,263</b>    | <b>1,733,883,778</b>  | <b>7,644,004,696</b>    |
| <b>Liquidity gap</b>           | <b>(P537,875,861)</b> | <b>(P4,477,317,636)</b> | <b>(P411,165,007)</b> | <b>(P5,426,358,504)</b> |

\*Excluding cash on hand

\*\*Presented under "Prepaid and other current assets" and "Other noncurrent assets" accounts in the consolidated statements of financial position.

\*\*\*Excluding statutory payables

\*\*\*\*Including contractual interest and excluding unamortized debt issue costs

|                                       | December 31, 2017  |                    |                    | Total          |
|---------------------------------------|--------------------|--------------------|--------------------|----------------|
|                                       | Due and Demandable | Less Than One Year | More than One Year |                |
| Cash and cash equivalents*            | ₱165,576,738       | ₱-                 | ₱-                 | ₱165,576,738   |
| Trade and other receivables           | -                  | 5,124,797          | -                  | 5,124,797      |
| Advances to related parties           | 351,404,302        | -                  | -                  | 351,404,302    |
| Cash in escrow                        | -                  | -                  | 751,913,965        | 751,913,965    |
|                                       | ₱516,981,040       | ₱5,124,797         | ₱751,913,965       | ₱1,274,019,802 |
| Loans payable***                      | -                  | 1,718,167,146      | 787,089            | 1,718,954,235  |
| Trade and other current liabilities** | -                  | 102,392,214        | -                  | 102,392,214    |
| Advances from related parties         | 129,367,293        | -                  | -                  | 129,367,293    |
|                                       | 129,367,293        | 1,820,559,360      | 787,089            | 2,446,062,559  |
| Liquidity gap                         | ₱392,738,544       | (₱1,820,559,360)   | (₱751,126,876)     | (₱676,693,940) |

\*Excluding cash on hand

\*\*Excluding statutory payables

\*\*\*Including contractual interest and excluding unamortized debt issue costs

### Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows from the Group's foreign currency-denominated assets and liabilities may fluctuate due to changes in foreign exchange rates. The Group continuously evaluates the movements of foreign exchange rates with the possible risk given its financial position.

The Group's objective is to keep transactional currencies at an acceptable level to its operations to minimize foreign exchange exposures. To mitigate the Group's exposure to foreign currency risk, cash flows denominated in foreign currencies are monitored.

### Foreign Currency-denominated Financial Assets and Financial Liabilities

Information on the Group's foreign currency-denominated monetary financial assets and financial liabilities and their Peso equivalents are as follows:

|                    | December 31, 2018 |                 | December 30, 2017 |                 |
|--------------------|-------------------|-----------------|-------------------|-----------------|
|                    | US\$ Value        | Peso Equivalent | US\$ Value        | Peso Equivalent |
| <b>Assets</b>      |                   |                 |                   |                 |
| Cash               | \$447,575         | ₱23,533,503     | \$993,640         | ₱49,612,445     |
| Receivables        | 20,520            | 1,078,944       | 102,640           | 5,124,797       |
| Cash in escrow     | 25,026,983        | 1,315,918,771   | 15,059,362        | 751,913,965     |
|                    | 25,495,078        | 1,340,531,218   | 16,155,642        | 806,651,207     |
| <b>Liabilities</b> |                   |                 |                   |                 |
| Loans payable      | 15,000,000        | 788,700,000     | 15,000,000        | 748,950,000     |
| Total              |                   | ₱551,831,218    |                   | ₱57,701,207     |

As at December 31, 2018 and 2017, the closing exchange rate was ₱52.58 and ₱49.93 for each U.S\$, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Group's loss before tax (due to revaluation of monetary assets and liabilities). There is no impact on equity other than those already affecting pretax loss.

|                   | Changes in Foreign<br>Exchange Rates | Impact on Loss<br>Before Income Tax |
|-------------------|--------------------------------------|-------------------------------------|
| December 31, 2018 | Increase by 5.31%                    | <b>P29,302,238</b>                  |
|                   | Decrease by 5.31%                    | <b>(29,302,238)</b>                 |
| December 31, 2017 | Increase by 10.78%                   | 6,220,190                           |
|                   | Decrease by 10.78%                   | (6,220,190)                         |

#### Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it can provide returns to stockholders and benefits to others stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group adjusts the dividend payment to stockholders, return capital to stockholders or issue new shares. The Group's debt-to-equity ratios are as follows:

|                   | 2018                  | 2017                  |
|-------------------|-----------------------|-----------------------|
| Total liabilities | <b>P6,592,481,194</b> | <b>P1,904,812,239</b> |
| Total equity      | <b>226,168,001</b>    | <b>423,552,617</b>    |
|                   | <b>29.15:1</b>        | <b>4.50:1</b>         |

The Group's goal in capital management is to maintain a debt – equity structure of not higher than 70% debt – 30% equity ratio. This will be addressed upon the completion of follow-on offering and expansion projects. The debt 70% debt – 30% equity capital management goal is also in line with L3 and CGLC's Provisional License Agreement with PAGCOR (see Note 20).

#### **18. Fair Value Information**

Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sales.

*Financial Instruments Whose Carrying Amounts Approximate Fair Value.* Management has determined that the carrying amounts of cash and cash equivalents, trade and other receivables, advances to and from related parties, restricted fund, cash in escrow, security deposits, trade and other current liabilities, and retention payable, based on their notional amounts, reasonably approximates their fair values because these are mostly short-term in nature or are repriced frequently.

*Long-term loan payable.* The fair value of long-term loan payable amounting to P894,287,474 is determined by discounting the expected cash flows using the discount rate of 9.07% as at December 31, 2018. Fair value measurement is categorized under Level 3 with significant observable inputs.

## 19. Deconsolidation of a Subsidiary

- a. Analysis of assets and liabilities of AAPI as at January 12, 2018 are as follows:

|  |                   |
|--|-------------------|
| <i>Assets</i>                                  |                   |
| Cash and cash equivalents                      | ₱7,251,958        |
| Advances to a related party                    | 189,785           |
| Prepayments and other current assets           | 208,965           |
| Property and equipment - net                   | 1,653,882         |
| Deferred input VAT                             | 149,786           |
| <b>Total Assets</b>                            | <b>9,454,376</b>  |
| <i>Liabilities</i>                             |                   |
| Accounts payable and other current liabilities | 71,413            |
| <b>Net assets of deconsolidated subsidiary</b> | <b>₱9,382,963</b> |

- b. Gain on sale of investment in a subsidiary

|   |                 |
|---|-----------------|
| Consideration                                     | ₱10,000,000     |
| Less net assets of deconsolidated subsidiary      | 9,382,963       |
| <b>Gain on sale of investment in a subsidiary</b> | <b>₱617,037</b> |

As at December 31, 2018, the consideration remains due from a related party (presented as part of "Trade and other receivables" in the consolidated statements of financial position).

## 20. Commitments and Contingencies

### License Agreement with PAGCOR

As discussed in Note 1, on May 3, 2017, PAGCOR issued a Provisional License (License) authorizing L3 to develop of approximately 13.5 hectares in Mactan Islands, LapuLapu City, Cebu and to establish and operate casinos and engage in gaming activities. The term of L3's License shall be for a period of 15 years or until May 3, 2032, which may be renewed subject to the terms of conditions of the License.

### *(a) Debt-Equity Ratio Requirement*

The License provides, among others, that L3's License may be revoked or suspended upon failure of L3 to comply with the 70% Debt - 30% Equity ratio requirement of PAGCOR. Testing date as stated in the License is to be performed every June and December. As at December 31, 2017, L3's debt-equity ratio was 78% - 22%, which exceeded the required debt to equity ratio of PAGCOR. On February 19, 2018, the SEC approved the application for the increase in the authorized capital stock of L3 from ₱500.0 million to ₱1,500.0 million. Subsequently, on March 5, 2018, L3 was given an extension by PAGCOR until April 30, 2018 to comply with the 70% debt - 30% equity ratio requirement.

On April 17, 2018, L3 and Udenna Development Corp. (UDEVCO) submitted a request to PAGCOR to:

- Amend the Provisional License to remove UDEVCO as a co-licensee and replace it with its wholly-owned subsidiary, LLC.
- Use the pro-forma consolidated financial statements of the co-licensees in the calculation of the 70% Debt - 30% Equity ratio.

On April 23, 2018, PH Travel has fully subscribed the remaining ₱1,000.0 million authorized capital stock of L3.

As at June 30, 2018, L3 has complied with the required 70% debt to 30% equity ratio requirement of PAGCOR.

On July 19, 2018, PAGCOR approved the amendments of the Provisional License to remove UDEVCO as a co-licensee and replace it with its wholly-owned subsidiary, LLC.

L3 defines "Debt" for this purpose as sum of all its interest-bearing debts. As at December 31, 2018, the combined debt-equity ratio of L3 and LLC is 69% - 31%.

*(b) Investment Commitments*

As required by the License, L3 is required to complete its US\$300.0 million (approximately ₱14,976.9 million) investment commitment in phases. The cost of the Project includes land acquisition costs, costs related to securing development rights, construction, equipment acquisition, development costs, financing costs and all other expenses directly related to the completion of the Project. As at December 31, 2018 and December 31, 2017, capitalized costs related to the Project amounted to ₱2,786.9 million and ₱469.8 million, respectively (see Note 9).

As a requirement in developing the aforementioned Project, L3 opened an escrow account with a local bank mutually agreed by PAGCOR and L3. At any given time, the escrow account shall have a maintaining balance of not lower than US\$15.0 million (about ₱748.8 million) (see Note 5). For failure to comply with such maintaining balance requirement, L3 shall be charged by PAGCOR an amount equal to ₱1.0 million for every 15 calendar day period, or a fraction thereof, until the noncompliance is corrected. Withdrawals from the escrow deposit can be made only for the construction costs and other fees for the development of the investment commitment. The investment amount shall be exhausted for each phase of the project. The escrow deposit requirement is effective until the completion of the Project and/or upon the receipt of a written notice from the Licensee, duly acknowledged by PAGCOR, instructing the full withdrawal of the deposit and termination of the escrow agreement, whichever comes first.

*(c) Requirement to Establish a Foundation*

L3, with the approval of PAGCOR, is required to incorporate and register a foundation for the restoration of cultural heritage ("Foundation") not later than 60 days from the signing of the License Agreement. The Foundation shall be funded by L3 by setting aside, on a monthly basis, a certain percentage of total gross gaming revenues generated from non-junket tables. The funds set aside for such purpose shall be remitted to the Foundation on or before the 10th day of the succeeding month.

On August 16, 2017, LapuLapu Cultural Heritage Foundation, Inc. was incorporated. However, no fund has been set aside by L3 as no gaming revenue has been recognized for the year ended December 31, 2018 and for the period from August 16, 2017 to December 31, 2017.



As discussed in Note 1, on August 6, 2018, PAGCOR issued a Provisional License to CGLC for the development of an integrated tourism resort and to establish and operate a casino within Clark Freeport Zone. Under the Clark Provisional License, CGLC shall, among others, comply with the following:

- a. Invest a minimum of U.S.\$200 million in the approved development (the "Clark Investment Commitment"), provided that 40% of the Clark Investment Commitment is spent within two years after the issuance of the Clark Provisional License, subject to an extension that PAGCOR may grant at its discretion.
- b. Maintain an escrow account into which all funds for development of Clark must be deposited and all funds withdrawn from this account must be used only for such development.
- c. Issue a certification from the Comptroller together with the certification from its independent external auditor that CGLC complies with the 70% Debt – 30% Equity ratio requirement of PAGCOR within sixty (60) calendar days after the end of each semi-annual period of each year. Furthermore, CGLC shall submit its semi-annual unaudited financial statements sixty (60) calendar days after the end of the applicable semi-annual period and an annual audited financial statements, within one hundred twenty (120) days after CGLC's year end.

CGLC defines "Debt" for this purpose as sum of all its interest-bearing debts. As at December 31, 2018, CGLC has complied with the required 70% debt to 30% equity ratio requirement of PAGCOR.

- d. CGLC is required, on a monthly basis, to remit 2% of casino revenues generated from non-junket tables to a foundation devoted to the restoration of Philippine cultural heritage, as selected by CGLC and approved by PAGCOR. On November 29, 2018, CGLC Cultural Heritage Foundation, Inc. was incorporated. However, no fund has been set aside by CGLC as no gaming revenue has been recognized for the period March 7, 2018 to December 31, 2018.

## 21. Loss Per Share

Basic Loss Per Share amounts are calculated by dividing the net loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

The following table presents information necessary to calculate Loss Per Share:

|   | 2018           | 2017          |
|---|----------------|---------------|
| Net loss attributable to the equity holders of the Parent Company | (P224,301,582) | (P76,447,383) |
| Divided by weighted average number of common shares               | 289,282,041    | 243,241,504   |
|   | (P0.7754)      | (P0.3143)     |

The Parent Company has no dilutive potential common shares outstanding, therefore basic loss per share is the same as diluted loss per share.

## 22. Segment Information

Segment information is prepared on the following bases:

### Business Segments

The business segments pertain mainly to hotel and restaurant activities. Assets and processes related to other business activities such as gaming are still not operational as of reporting period.

For management purposes, the Group is organized into two business activities - Hotel and restaurant and others. This segmentation is the basis upon which the Group reports its primary segment information.

### Business Segment Data

Hotel and restaurant segment comprise revenues from hotel and restaurant activities and other incidental services related thereto. Information presented for the year ended December 31, 2017 pertains to the consolidated operations of the Group since the hotel and restaurant operations commenced only at the beginning of 2018.

The following table presents the revenue and expense information and certain assets and liabilities information regarding business segments for the years ended December 31, 2018 and 2017:

|   | 2018                     |                 |                  | 2017           |                |
|---|--------------------------|-----------------|------------------|----------------|----------------|
|   | Hotels and<br>Restaurant | Others          | Eliminations     | Total          | Total          |
| Revenue                                       | P82,758,452              | P-              | P-               | P82,758,452    | P-             |
| Results                                       |                          |                 |                  |                |                |
| Direct costs and expenses                     | (36,022,089)             | -               | -                | (36,022,089)   | -              |
| Operating expenses                            | (37,019,037)             | (134,294,771)   | -                | (171,313,808)  | (54,891,263)   |
| Foreign exchange<br>gain (loss) - net         | (367,475)                | (15,817,628)    | -                | (16,185,103)   | (16,613,055)   |
| Depreciation                                  | (2,543,972)              | (1,304,324)     | -                | (3,848,296)    | (507,512)      |
| Interest expense                              | (25,768,117)             | (55,586,796)    | -                | (81,354,913)   | (15,654,302)   |
| Interest income                               | 68,201                   | 20,575,285      | -                | 20,643,486     | 12,053,748     |
| Income tax expense                            | (3,599,825)              | (15,652,148)    | -                | (19,251,862)   | (785,608)      |
| Other non-operating<br>income (expense) - net | (214,094)                | (130,281)       | -                | (344,375)      | (49,391)       |
| Net loss                                      | (P22,707,956)            | (P202,210,663)  | P-               | (P224,918,508) | (P76,447,383)  |
| Assets and liabilities                        |                          |                 |                  |                |                |
| Operating assets                              | P1,209,752,605           | P14,232,825,504 | (P8,623,928,914) | P6,818,649,195 | P2,328,364,856 |
| Deferred tax asset                            | -                        | -               | -                | -              | 503,124        |
| Total assets                                  | P1,209,752,605           | P14,232,825,504 | (P8,623,928,914) | P6,818,649,195 | P2,328,867,980 |
| Operating liabilities                         | P140,688,831             | P3,570,603,519  | (P1,948,928,914) | P1,762,363,436 | P254,900,466   |
| Loans payable                                 | 964,860,196              | 3,849,612,861   | -                | 4,814,473,057  | 1,649,911,773  |
| Deferred tax liabilities                      | 3,085,481                | 12,559,220      | -                | 15,644,701     | -              |
| Total liabilities                             | P1,108,634,508           | P7,432,775,600  | (P1,948,928,914) | P6,592,481,194 | P1,904,812,239 |

## 23. Net Loss/Total Comprehensive Loss

The Group's net loss and total comprehensive loss for the years ended December 31, 2018 and 2017 are the same since the Group does not have other comprehensive income or loss.

**PH RESORTS GROUP HOLDINGS, INC. AND SUBSIDIARIES**  
**(Formerly Philippine H2O Ventures, Corp.)**

**SCHEDULE OF ALL THE EFFECTIVE STANDARDS  
AND INTERPRETATIONS  
DECEMBER 31, 2018**

| PHILIPPINE FINANCIAL REPORTING STANDARDS                                      |  |   |  |   |
|---|--|---|--|---|
| <b>Framework for the Preparation and Presentation of Financial Statements</b> |  |   |  |   |
| Conceptual Framework Phase A: Objectives and qualitative characteristics      |  | ✓ |  |   |
| <b>PFRSs Practice Statement Management Commentary</b>                         |  | ✓ |  |   |
| <b>Philippine Financial Reporting Standards</b>                               |  |   |  |   |
| <b>PFRS 1<br/>(Revised)</b>   | First-time Adoption of Philippine Financial Reporting Standards  | ✓ |  |   |
|   | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |   |  | ✓ |
|   | Amendments to PFRS 1: Additional Exemptions for First-time Adopters  |   |  | ✓ |
|   | Amendment 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   |   |  | ✓ |
|   | Amendment to PFRS 1: Borrowing Costs   |   |  | ✓ |
|   | Amendment to PFRS 1: Meaning of Effective PFRSs  |   |  | ✓ |
| <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                                      |   |  | ✓ |
|   | Amendment to PFRS 2: Definition of Vesting Condition   |   |  | ✓ |
|   | Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions                       |   |  | ✓ |
| <b>PFRS 3<br/>(Revised)</b>   | Business Combinations  | ✓ |  |   |
|   | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination                         |   |  | ✓ |
|   | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements   |   |  | ✓ |
| <b>PFRS 4</b>   | Insurance Contracts  |   |  | ✓ |

| INTERNATIONAL FINANCIAL REPORTING STANDARDS |   | APPLICABLE |    |                |
|---|---|------------|----|----------------|
| STANDARD                                    | DESCRIPTION   | YES        | NO | NOT APPLICABLE |
|   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts  |            |    | ✓              |
|   | Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts   |            |    | ✓              |
| <b>PFRS 5</b>                               | Non-current Assets Held for Sale and Discontinued Operations  |            |    | ✓              |
|   | Changes in Method of Disposal   |            |    | ✓              |
| <b>PFRS 6</b>                               | Exploration for and Evaluation of Mineral Resources   |            |    | ✓              |
| <b>PFRS 7</b>                               | Financial Instruments: Disclosures  | ✓          |    |                |
|   | 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   |            |    | ✓              |
|   | Amendments to PFRS 7: Servicing Contracts   |            |    | ✓              |
|   | Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements   |            |    | ✓              |
| <b>PFRS 8</b>                               | Operating Segments  |            |    | ✓              |
|   | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets |            |    | ✓              |
| <b>PFRS 9</b>                               | Financial Instruments   | ✓          |    |                |
|   | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures   | ✓          |    |                |
|   | Amendments to PFRS 9: Prepayment Features with Negative Compensation  |            |    | ✓              |
| <b>PFRS 10</b>                              | Consolidated Financial Statements   | ✓          |    |                |
|   | Amendments to PFRS 10: Investment Entities  | ✓          |    |                |
|   | Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture                                      |            |    | ✓              |

| PFRSs                           |   | PFRSs             |  | Adopted |
|---------------------------------|---|-------------------|--|---------|
| PFRSs                           |   | PFRSs             |  | Adopted |
|                                 | Amendments to PFRS 10: Applying the Consolidation Exception   |                   |  | ✓       |
| PFRS 11                         | Joint Arrangements  |                   |  | ✓       |
|                                 | Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations                                      | Not Early Adopted |  |         |
| PFRS 12                         | Disclosure of Interests in Other Entities   | ✓                 |  |         |
|                                 | Amendments to PFRS 12: Investment Entities  | ✓                 |  |         |
|                                 | Amendment to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014–2016 Cycle) | Not Early Adopted |  |         |
| PFRS 13                         | Fair Value Measurement  | ✓                 |  |         |
|                                 | Amendment to PFRS 13: Short-term Receivables and Payables   | Not Early Adopted |  |         |
|                                 | Amendment to PFRS 13: Portfolio Exception   |                   |  | ✓       |
| PFRS 14                         | Regulatory Deferral Accounts  |                   |  | ✓       |
| PFRS 15                         | Revenue from Contracts with Customers   |                   |  | ✓       |
| PFRS 16                         | Leases  | Not Early Adopted |  |         |
| Philippine Accounting Standards |   |                   |  |         |
| PAS 1 (Revised)                 | Presentation of Financial Statements  | ✓                 |  |         |
|                                 | Amendment to PAS 1: Capital Disclosures   | ✓                 |  |         |
|                                 | 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: Clarification of the requirements of comparative information                                       | Not Early Adopted |  |         |
|                                 | Amendments to PAS 1: Disclosure Initiative  |                   |  | ✓       |
| PAS 2                           | Inventories   | ✓                 |  |         |
| PAS 7                           | Statement of Cash Flows   | ✓                 |  |         |
|                                 | Amendments to PAS 7: Statement of Cash Flows, Disclosure Initiative   | ✓                 |  |         |
| PAS 8                           | Accounting Policies, Changes in Accounting Estimates and Errors   | ✓                 |  |         |
| PAS 10                          | Events after the Reporting Period   | ✓                 |  |         |
| PAS 11                          | Construction Contracts  |                   |  | ✓       |
| PAS 12                          | Income Taxes  | ✓                 |  |         |

| Financial Accounting Standards (FAS) and International Financial Reporting Standards (IFRS) Issued by the International Accounting Standards Board (IASB) |   |        |                |         |
|---|---|--------|----------------|---------|
| Standard  | Description   | Issued | Effective Date | Adopted |
|   | Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets                                |        |                | ✓       |
|   | Amendments to PAS 12: Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses    |        |                | ✓       |
| PAS 16  | Property, Plant and Equipment   | ✓      |                |         |
|   | Amendment to PAS 16: Classification of Servicing Equipment                                      |        |                | ✓       |
|   | Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation |        |                | ✓       |
|   | Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation                        | ✓      |                |         |
|   | Amendment to PAS 16: Bearer Plants  |        |                | ✓       |
| PAS 17  | Leases  | ✓      |                |         |
| PAS 18  | Revenue   | ✓      |                |         |
| PAS 19  | Employee Benefits   | ✓      |                |         |
|   | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures                   |        |                | ✓       |
| PAS 19 (Amended)  | Employee Benefits   | ✓      |                |         |
|   | Amendments to PAS 19: Defined Benefit Plans: Employee Contribution                              |        |                | ✓       |
|   | Amendments to PAS 19: Regional Market Issue Regarding Discount Rate                             |        |                | ✓       |
| PAS 20  | Accounting for Government Grants and Disclosure of Government Assistance                        |        |                | ✓       |
| PAS 21  | The Effects of Changes in Foreign Exchange Rates  | ✓      |                |         |
|   | Amendment: Net Investment in a Foreign Operation  |        |                | ✓       |
| PAS 23 (Revised)  | Borrowing Costs   | ✓      |                |         |
| PAS 24 (Revised)  | Related Party Disclosures   | ✓      |                |         |
|   | Amendments to PAS 24: Key Management Personnel  | ✓      |                |         |
| PAS 26  | Accounting and Reporting by Retirement Benefit Plans  |        |                | ✓       |
| PAS 27  | Consolidated and Separate Financial Statements  | ✓      |                |         |
| PAS 27 (Amended)  | Separate Financial Statements   |        |                | ✓       |
|   | Amendments to PAS 27: Investment Entities   |        |                | ✓       |
|   | Amendments to PAS 27: Equity Method in Separate Financial Statements                            |        |                | ✓       |
| PAS 28  | Investments in Associates   |        |                | ✓       |

| <b>PAS 28<br/>(Amended)</b> | Investments in Associates and Joint Ventures  |   |  | ✓ |
|-----------------------------|---|---|--|---|
|                             | Amendments to PFRS 10: Sale or Contribution of Assets Between and Investor and its Associate of Joint Venture |   |  | ✓ |
|                             | Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014–2016 Cycle)  |   |  | ✓ |
|                             | Long-term Interests in Associates and Joint Ventures  |   |  | ✓ |
| <b>PAS 29</b>               | Financial Reporting in Hyperinflationary Economies  |   |  | ✓ |
| <b>PAS 31</b>               | Interests in Joint Ventures   |   |  | ✓ |
| <b>PAS 32</b>               | Financial Instruments: Disclosure and Presentation  | ✓ |  |   |
|                             | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation         |   |  | ✓ |
|                             | Amendment to PAS 32: Classification of Rights Issues  |   |  | ✓ |
|                             | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                                   | ✓ |  |   |
|                             | Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments                             |   |  | ✓ |
| <b>PAS 33</b>               | Earnings per Share  | ✓ |  |   |
| <b>PAS 34</b>               | Interim Financial Reporting   |   |  | ✓ |
|                             | Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities    |   |  | ✓ |
|                             | Amendments to PAS 34: Disclosure of Information Elsewhere in the Interim Financial Report                     |   |  | ✓ |
| <b>PAS 36</b>               | Impairment of Assets  |   |  | ✓ |
|                             | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets                                 |   |  | ✓ |
| <b>PAS 37</b>               | Provisions, Contingent Liabilities and Contingent Assets  |   |  | ✓ |
| <b>PAS 38</b>               | Intangible Assets   |   |  | ✓ |
|                             | Amendments to PAS 38: Clarification of acceptable methods of amortization                                     |   |  | ✓ |
|                             | Amendments to PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization              |   |  | ✓ |
| <b>PAS 39</b>               | Financial Instruments: Recognition and Measurement  | ✓ |  |   |
|                             | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities        | ✓ |  |   |
|                             | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                          |   |  | ✓ |
|                             | Amendments to PAS 39: The Fair Value Option   |   |  | ✓ |

| Philippine Interpretations of IFRS |  | IFRS | IFRS | IFRS |
|------------------------------------|--|------|------|------|
|                                    | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts   |      |      | ✓    |
|                                    | 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 Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives   |      |      | ✓    |
|                                    | Amendment to PAS 39: Eligible Hedged Items   |      |      | ✓    |
|                                    | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting   |      |      | ✓    |
| PAS 40                             | Investment Property  |      |      | ✓    |
|                                    | Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property |      |      | ✓    |
|                                    | Amendments to PAS 40, Investment Property, Transfers of Investment Property  |      |      | ✓    |
| PAS 41                             | Agriculture  |      |      | ✓    |
|                                    | Amendment to PAS 41: Bearer Plants   |      |      | ✓    |
| Philippine Interpretations         |  |      |      |      |
| IFRIC 1                            | Changes in Existing Decommissioning, Restoration and Similar Liabilities   |      |      | ✓    |
| IFRIC 2                            | Members' Share in Co-operative Entities and Similar Instruments  |      |      | ✓    |
| IFRIC 4                            | <i>Determining Whether an Arrangement Contains a Lease</i>   | ✓    |      |      |
| IFRIC 5                            | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds   |      |      | ✓    |
| IFRIC 6                            | <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>   |      |      | ✓    |
| IFRIC 7                            | <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>   |      |      | ✓    |
| IFRIC 8                            | <i>Scope of PFRS 2</i>   |      |      | ✓    |
| IFRIC 9                            | Reassessment of Embedded Derivatives   |      |      | ✓    |
|                                    | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives   |      |      | ✓    |
| IFRIC 10                           | <i>Interim Financial Reporting and Impairment</i>  |      |      | ✓    |
| IFRIC 11                           | PFRS 2 - Group and Treasury Share Transactions   |      |      | ✓    |
| IFRIC 12                           | Service Concession Arrangements  |      |      | ✓    |



| IFRS Interpretations |   | IFRS Interpretations |  | IFRS Interpretations |
|----------------------|---|----------------------|--|----------------------|
| IFRIC 13             | Customer Loyalty Programmes   |                      |  | ✓                    |
| IFRIC 14             | 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 |                      |  | ✓                    |
| IFRIC 15             | Agreements for the Construction of Real Estate*   |                      |  | ✓                    |
| 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  |                      |  | ✓                    |
| SIC-7                | Introduction of the Euro  |                      |  | ✓                    |
| SIC-10               | Government Assistance - No Specific Relation to Operating Activities                              |                      |  | ✓                    |
| SIC-12               | Consolidation - Special Purpose Entities  |                      |  | ✓                    |
|                      | Amendment to SIC - 12: Scope of SIC 12  |                      |  | ✓                    |
| SIC-13               | Jointly Controlled Entities - Non-Monetary Contributions by Venturers                             |                      |  | ✓                    |
| 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-31               | Revenue - Barter Transactions Involving Advertising Services                                      |                      |  | ✓                    |
| SIC-32               | Intangible Assets - Web Site Costs  |                      |  | ✓                    |

# ANNEX B

## MANAGEMENT REPORT

The information herein should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes thereto contained in this Report.

### Short Background of Business of Registrant

PH Resorts Group Holdings, Inc. (formerly Philippine H2O Ventures Corp. "PH Resorts", "Parent Company" "Company" or "H2O") is the parent company of PH Travel and Leisure Holdings Corp., the holding company for the gaming and hospitality arm of the Udenna Group, which includes LapuLapu Leisure, Inc., Clark Grand Leisure Corp., and Donatela Hotel Panglao Corp.

LapuLapu Leisure, Inc. (LLLI) is the developer of The Emerald Bay, an integrated tourism resort to be located on a 13.5-hectare site in Lapu-Lapu City, Mactan Island, Cebu, Philippines. On May 3, 2017, LapuLapu Leisure and its co-licensee were granted a provisional license by the Philippine Amusement and Gaming Corporation ("PAGCOR").

Clark Grand Leisure Corp. (CGLC) is the developer of The Base, an integrated tourism resort to be located on a 4.4-hectare site in Clark Global City, Clark Freeport Zone, Pampanga, Philippines. On August 6, 2018, CGLC was granted a provisional license by PAGCOR.

Donatela Hotel Panglao Corp (DHPC) is the owner of the Donatela Hotel, a boutique-style, upscale hotel in Tawala, Panglao Island, Bohol. DHPC acquired the Donatela Hotel in 2017. The Donatela Hotel commenced operations on November 7, 2017 and currently has 12 upscale villas with pools, fine-dining restaurants and a wine cellar. It is located on a 7.5-hectare property approximately a 10-minute drive from the Bohol-Panglao International Airport.

### Business and General Information

#### Item 1. Business Development

PH Resorts Group Holdings, Inc. was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on January 30, 2009. The common shares of the Parent Company are listed and traded in the Philippine Stock Exchange (PSE). The registered office address of the Parent Company is at GGDC Administrative Services Building, Clark Global City, Clark Freeport Zone, Pampanga.

As of December 31, 2018, the Parent Company is a majority-owned subsidiary of Udenna Corporation ("Ultimate Parent Company" or "Udenna"), a company incorporated in the Philippines.

On June 25, 2018, the Board of Directors (BOD) and the stockholders approved the following amendments to the Parent Company's Articles of Incorporation (AOI):

- Change in corporate name from Philippine H2O Ventures Corp. to PH Resorts Group Holdings, Inc.
- Change in the primary purpose of H2O from "to invest in, purchase, or otherwise acquire and own, hold, use, develop, lease, sell, assign, transfer, mortgage, pledge, exchange, operate, enjoy or otherwise dispose of, as may be permitted by law, all properties of every kind, nature and description and wherever situated, including but not limited to real estate, whether improved or unimproved, agricultural and natural resource projects, buildings, warehouses, factories, industrial complexes and facilities; shares of stock, subscriptions, bonds, warrant, debentures, notes,

evidences of indebtedness, and other securities and obligations of any corporation or corporations, associations, domestic or foreign, for whatever lawful to pay therefore stocks, bonds, debentures, contracts, or obligations, to receive, collect, and dispose of interest, dividends, and income arising from such property; and to possess and exercise in respect thereof all the rights, powers, and privileges of ownership, including complying with the provisions of Revised Securities Act" to "to subscribe, acquire, hold, sell, assign, or dispose of shares of stock and other securities of any corporation including those engaged in the hotel and/or gaming and entertainment business, without however engaging in the dealership of securities or in the stock brokerage business or in the business of an investment company, to the extent permitted by law, and to be involved in the management and operations of such investee companies; and to guarantee the obligations of its subsidiaries or affiliates or any entity in which the Corporation has lawful interest".

- Change in registered principal office address from 4/F, 20 Lansbergh Place Bldg., 170 Tomas Morato Ave, Quezon City 1103 to GGDC Administrative Services Building, Clark Global City, Clark Freeport Zone, Pampanga, 2023.
- Change in the number of directors from seven to nine.
- Increase in authorized capital stock from P500.0 million, consisting of 500.0 million common shares with a par value of P1.00 per share to P8.0 billion consisting of 8.0 billion common shares with a par value of P1.00 per share.

On December 19, 2017, the Parent Company was notified by Jollville Holdings Corporation (JHC, former parent company of H2O) that the latter, along with its subsidiaries and related parties, will be selling all their shareholdings in the Parent Company representing 62.006% of the issued and outstanding capital of the Parent Company to Udenna Development Corporation (UDEVCO), or to any of the latter's subsidiaries or affiliates (the H2O Sale). One of the conditions for the H2O Sale is the implementation and completion by H2O of a spin-off by selling all of its existing business and assets, including shares and interest in its subsidiaries. The Parent Company shall also collect all receivables, settle all its obligations, assign its contractual interests, transfer or reassign all of its employees and settle and dissolve its retirement fund.

On February 21, 2018, Tubig Pilipinas Corp. (formerly Tabuk Water Corp, "TPC", a wholly-owned subsidiary of JHC), entered into a purchase agreement, subject to conditions, with the Parent Company to purchase the latter's shares and interests, in Calapan Waterworks Corporation (CWWC) consisting of 137,045,398 shares representing 99.75% of the issued and outstanding capital stock of CWWC for a total consideration of P442.0 million. On April 4, 2018, the Parent Company's stockholders approved the CWWC sale. On June 1, 2018, the Parent Company sold all of its shares and interests in CWWC to Tubig Pilipinas Corp. Accordingly, the Parent Company lost its control over CWWC.

On February 28, 2018, JHC and UDEVCO entered into a Share Purchase Agreement (SPA) for the latter to acquire 150,824,890 common shares from the former representing 62.006% of the issued and outstanding common shares of H2O for a total purchase price of P647.9 million or P4.30 per share. On April 25, 2018, UDEVCO subsequently assigned all of its rights and obligations under the SPA to the ultimate parent company, Udenna Corporation. Consequently, H2O became the holding company for the tourism-related businesses of Udenna.

Udenna conducted a tender offer from April 30, 2018 to May 29, 2018 to buy the remaining 92,416,614 common shares, representing approximately 37.994% of the issued and outstanding common shares of H2O. No shareholder tendered their shares.

On June 1, 2018, upon completion of the tender offer and fulfillment of the conditions as provided in the SPA, the common shares of H2O were transferred to Udenna through a special block sale in the PSE. Accordingly, on the same date, the Parent Company became a subsidiary of Udenna, a company incorporated in the Philippines. All the assets and

liabilities as of May 31, 2018 of the subsidiaries of the Parent Company were disposed through a spin-off on June 1, 2018 as part of the conditions set forth in the SPA.

From June 13 to July 3, 2018, Udenna acquired additional 19,457,486 shares through a special block sale in the PSE, effectively owning an additional 7.994% interest in H2O.

On June 27, 2018, Udenna and PH Resorts executed a deed of assignment wherein Udenna assigned, transferred, and conveyed 44,654,000 shares of PH Travel and Leisure Holdings Corp. (PH Travel, a wholly-owned subsidiary of Udenna), representing its 8.93% interest ownership, to PH Resorts in exchange for cash consideration in the amount of P406.4 million.

On the same date, Udenna and PH Resorts also executed a deed of assignment wherein Udenna assigned, transferred, and conveyed 455,346,000 shares of PH Travel, representing its 91.07% interest ownership, to PH Resorts in exchange for the issuance of 4,143,848,309 shares of PH Resorts to be issued at P1.00 par value per share for a total share swap consideration of P4,143.6 million (Share Swap Consideration). The Ultimate Parent Company shall apply the share swap consideration in payment of its subscription to the additional shares in the capital stock of PH Resorts to be issued at the price of P1.00 per share from the proposed increase in the authorized capital stock of PH Resorts. Upon effectivity, PH Travel will become a direct wholly owned subsidiary of PH Resorts.

Neither the Company nor its subsidiaries are the subject of any bankruptcy, receivership or similar proceedings.

## **Item 2. Business of Issuer**

PH Resorts Group Holdings, Inc. was incorporated primarily to subscribe, acquire, hold, sell, assign, or dispose of shares of stock and other securities of any corporation including those engaged in the hotel and/or gaming and entertainment business, without however engaging in the dealership of securities or in the stock brokerage business or in the business of an investment company, to the extent permitted by law, and to be involved in the management and operations of such investee companies; and to guarantee the obligations of its subsidiaries or affiliates or any entity in which the Corporation has lawful interest”.

PH Resorts Group Holdings, Inc. is the parent company of PH Travel and Leisure Holdings Corp., the holding company for the gaming and hospitality arm of the Udenna Group, which includes LapuLapu Leisure, Inc., Clark Grand Leisure Corp., and Donatela Hotel Panglao Corp. LapuLapu Leisure is the developer of The Emerald Bay, an integrated tourism resort to be located in Mactan Island, Lapu-Lapu City, Cebu, Philippines. On May 3, 2017, LapuLapu Leisure and UDEVCO were granted a provisional license by the Philippine Amusement and Gaming Corporation (“PAGCOR”) to establish The Emerald Bay on a prime beachfront area on Lapu-Lapu City, Mactan Island, Cebu. In July 2018, upon the request of the Company, PAGCOR approved the substitution of Lapulapu Land Corp. as a new co-licensee of The Emerald Bay Provisional License in place of UDEVCO. The Emerald Bay will be located on a 13.5-hectare site located on the Punta Engaño peninsula of Mactan Island, which is approximately six kilometers away from Mactan-Cebu International Airport (MCIA) (CEB). LapuLapu Leisure leases the site on which The Emerald Bay will be located from Lapulapu Land Corp. Construction of The Emerald Bay commenced in December 2017 and is expected to be completed in time for the anticipated opening of The Emerald Bay in the third quarter of 2020.

CGLC is the developer of The Base, an integrated tourism resort to be located in Clark Global City, Clark Freeport Zone, Pampanga. On August 6, 2018, CGLC was granted a provisional license by PAGCOR to establish The Base in Clark Global City. The Base will be located on a 4.4-hectare site located in Clark Global City, Clark Freeport Zone, which is

approximately seven kilometers away from the Clark International Airport (CRK). CGLC leases the site on which The Base will be located from Global Gateway Development Corporation. Groundbreaking of The Base is scheduled to commence before the end of 2019 and is expected to be completed by 2022.

DHPC is the owner of the Donatela Hotel, a boutique-style, upscale hotel in Tawala, Panglao Island, Bohol. DHPC acquired the Donatela Hotel in 2017. The Donatela Hotel commenced operations on November 7, 2017 and currently has 12 upscale villas with pools, fine-dining restaurants and a wine cellar. It is located on a 7.5-hectare property approximately a 10-minute drive from the Bohol-Panglao International Airport (TAG).

The Parent Company's other indirect subsidiaries have no material operations as of the date of this annual report.

PH Resorts expects the Integrated Resorts to take advantage of the growing market for gaming in Asia, as evidenced by Macau, the world's largest gaming market in 2017, recording total casino revenues of US\$33.2 billion in 2017 according to The Innovation Group, translating to a CAGR of total casino revenues of 7.9% from 2015 to 2017. The Company believes that the Integrated Resorts will be able to take advantage of this strong demand by providing an attractive gaming option for Philippine and regional Mass Market and VIP players, with its combination of high-end design, varied gaming and non-gaming offerings, luxurious amenities and high-quality customer service.

The Company believes that The Emerald Bay and The Base will be two of the Philippines' premier integrated tourism resort and gaming complexes, offering a premium gaming experience to all of its customers in a gaming facility designed and operated according to world-class standards. Moreover, the Company believes the Donatela Hotel will enhance the Company's luxury offerings and complement the establishment of The Emerald Bay by offering additional upscale facilities to its gaming and non-gaming guests.

### **Item 3. Properties**

#### *The Emerald Bay*

The aggregate land area for The Emerald Bay site comprises 13.6 hectares. LapuLapu Land Corp. owns the land on which The Emerald Bay is being constructed following the purchase of several lots of land from third parties. Pursuant to the lease agreements entered into in July 2017 and August 2018 (the "Emerald Bay Lease Agreements"), LapuLapu Leisure has leased the relevant land from LapuLapu Land Corp. for a period of 25 years, subject to renewal for an additional 25 years at the option of LapuLapu Leisure. The Emerald Bay Lease Agreements were entered into on arm's-length arrangements.

#### *The Base*

The Base is located in a 4.4-hectare property in Clark Global City, part of Clark Freeport Zone in Angeles City, Pampanga. In January 2019, CGLC entered into a memorandum of agreement with Global Gateway Development Corp., a wholly-owned subsidiary of UDEVCO and a related party of the Company (the "Clark MOA"), pursuant to which CGLC has agreed to enter into an agreement to lease the land on which The Base is to be constructed from Global Gateway Development Corp. by March 1, 2019. Such lease agreement would be for the period to April 2085, unless it is otherwise extended by the parties pursuant to the terms thereof. The land is owned and controlled by Clark International Airport Corp., which has entered into a lease agreement with Global Gateway Development Corp., which is due to expire in 2085. Under the Clark MOA, CGLC also has the irrevocable option exercisable within five years from the date of the lease agreement to lease an additional 2.7 hectares from Global Gateway Development Corp.

#### *The Donatela Hotel*

The aggregate land area of the Donatela Hotel comprises 7.6 hectares, which is sufficient for the Donatela Hotel's current operations and its planned expansion. The Company has entered into arrangements which would have PH Travel purchase the land, and subsequently assign the same in favor of DHPC. Apart from being a standalone upscale hotel offering in Bohol, the Donatela Hotel has also been envisioned to serve as a complementary property to The Emerald Bay, offering a quieter, more family-friendly option in close proximity to The Emerald Bay's gaming and entertainment offerings. When The Emerald Bay commences operations, the Company is planning to offer a private ferry service for guests to and from the two properties, which is a short ninety minute boat ride away from each other.

#### **Item 4. Legal Proceedings**

Neither the Company nor any of its subsidiaries are involved in, or the subject of, any legal proceedings which, if determined adversely to the Company or the relevant subsidiary's interests, would have a material effect on the business or financial position of the Company or any of its subsidiaries.

#### **Item 5. Management's Discussion and Analysis and Plan of Operation**

The information herein should be read in conjunction with, and is qualified in its entirety by reference to the consolidated financial statements and related notes thereto contained in this Report.

##### Acquisition of PH Travel Group by PH Resorts through Partial Cash Payment and Share Swap Transaction

As at December 26, 2018, the equity share swap transaction between PH Resorts and PH Travel became effective. Because PH Resorts did not meet the definition of a business, PH Travel was deemed to be the acquirer for accounting purposes. The acquisition was accounted for similar to a reverse acquisition following the guidance provided by the standard. In a reverse acquisition, the legal parent, PH Resorts, is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary, PH Travel, is adjudged to be the entity that gained control over the legal parent. Accordingly, the consolidated financial statements of PH Resorts have been prepared as a continuation of the financial statements of the PH Travel and subsidiaries. The PH Travel Group has accounted for the acquisition of PH Resorts on December 26, 2018, which was the date when PH Travel acquired control of PH Resorts.

The comparative financial information for the year ended December 31, 2016 has not been presented in the consolidated financial statements as all companies within the PH Travel Group were incorporated in or after January 2017 and the effective date which PH Travel gained control on PH Resorts as described above was on December 26, 2018. The consolidated balance sheet as of December 31, 2017 presented in the consolidated financial statements as of December 31, 2018, for comparative purposes, is retroactively adjusted to reflect the legal capital (i.e. the number and type of capital stock issued, and additional paid-in capital) of PH Resorts. The adjustment, which is the difference between the capital structure of PH Travel and PH Resorts, is recognized as part of equity reserve in the consolidated balance sheets as of December 31, 2018 and 2017, respectively.

In accounting for this transaction, the consolidated financial information will reflect the following:

- (a) The consolidated assets and liabilities of PH Travel Group (legal subsidiary/accounting acquirer) will be recognized and measured at carrying amount and the assets and liabilities of PH Resorts (legal parent/accounting acquiree) which only consist of cash and cash equivalents will be recognized and measured at acquisition cost.
- (b) The equity will reflect the combined equity of PH Travel Group and PH Resorts. However, the legal capital of PH Travel Group will be eliminated as the legal capital that will be reflected would be that of PH Resorts (legal parent);
- (c) The Income statement for the current period should reflect that of PH Travel for the full period together with the post-acquisition results of PH Resorts; and
- (d) Any difference between the consideration transferred by PH Resorts and the legal capital of PH Travel Group that is eliminated is reflected as "Equity Reserve".

Reverse acquisition applies only to the consolidated financial statements of PH Resorts. The Parent Company financial statements will continue to represent PH Resorts as a stand-alone entity as of December 31, 2018 and 2017.

The Company is expected to rely on the following sources of liquidity for the next 12 months: (1) financing lines provided by various creditors, (2) paid-up capital, and, to a certain extent, (3) cash flow from operations of the Donatela Hotel. The Company knows of no demands, commitments, events, or uncertainties that are reasonably likely to result in a material increase or decrease in liquidity.

Please refer to Item 2 Business Issuer for ongoing projects.

## Results of Operations

### Operating Results for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

|   |                                 |                                 | VERTICAL ANALYSIS |      | HORIZONTAL ANALYSIS    |       |
|---|---------------------------------|---------------------------------|-------------------|------|------------------------|-------|
|   | For the year ended, December 31 | For the year ended, December 31 | % to Revenues     |      | Change from Prior Year |       |
|   | 2018                            | 2017                            | 2018              | 2017 | Inc/(Dec)              | %     |
| <b>NET OPERATING REVENUES</b>           |                                 |                                 |                   |      |                        |       |
| Food and beverage                       | 43,889,021                      | -                               | 53%               | -    | 43,889,021             | 100%  |
| Rooms                                   | 35,148,627                      | -                               | 43%               | -    | 35,148,627             | 100%  |
| Others                                  | 3,720,804                       | -                               | 4%                | -    | 3,720,804              | 100%  |
|   | 82,758,452                      | -                               | 100%              | -    | 82,758,452             | 100%  |
| <b>DIRECT COSTS AND EXPENSES</b>        |                                 |                                 |                   |      |                        |       |
| Inventories consumed                    | 19,786,070                      | -                               | 24%               | -    | 19,786,070             | 100%  |
| Salaries and wages                      | 11,272,482                      | -                               | 14%               | -    | 11,272,482             | 100%  |
| Other costs and expenses                | 4,963,537                       | -                               | 6%                | -    | 4,963,537              | 100%  |
|   | 36,022,089                      | -                               | 44%               | -    | 36,022,089             | 100%  |
| <b>GROSS INCOME</b>                     | 46,736,363                      | -                               | 56%               | -    | 46,736,363             | 100%  |
| <b>OPERATING EXPENSES</b>               | 175,162,104                     | 55,398,775                      | 212%              | -    | 119,763,329            | 216%  |
| <b>OPERATING LOSS</b>                   | (128,425,741)                   | (55,398,775)                    | -155%             | -    | (73,026,966)           | 132%  |
| <b>NON-OPERATING INCOME (EXPENSES)</b>  |                                 |                                 |                   |      |                        |       |
| Interest expense                        | (61,354,913)                    | (15,854,302)                    | -98%              | -    | (65,700,611)           | 420%  |
| Interest income                         | 20,843,486                      | 12,053,748                      | 25%               | -    | 8,589,738              | 71%   |
| Gain on disposal of a subsidiary        | 817,037                         | -                               | 1%                | -    | 817,037                | 100%  |
| Foreign exchange gain (loss) - net      | (16,185,103)                    | (18,613,055)                    | -20%              | -    | 427,952                | -3%   |
| Other income (expenses)                 | (344,375)                       | (49,391)                        | 0%                | -    | (294,984)              | 597%  |
|   | (76,623,868)                    | (20,263,000)                    | -93%              | -    | (56,360,868)           | 278%  |
| <b>LOSS BEFORE INCOME TAX</b>           | (205,049,809)                   | (75,861,775)                    | -248%             | -    | (129,387,834)          | 171%  |
| <b>PROVISION FOR INCOME TAX</b>         | 18,251,973                      | 785,608                         | 23%               | -    | 18,466,365             | 2351% |
| <b>NET LOSS</b>                         | (224,301,582)                   | (76,447,383)                    | -271%             | -    | (147,854,199)          | 193%  |
| <b>OTHER COMPREHENSIVE INCOME</b>       | -                               | -                               | 0%                | -    | -                      | 0%    |
| <b>TOTAL COMPREHENSIVE LOSS</b>         | (224,301,582)                   | (76,447,383)                    | -271%             | -    | (147,854,199)          | 193%  |
| <b>Basic and Diluted Loss Per Share</b> | (0.7754)                        | (0.3143)                        |                   |      |                        |       |



## **NET OPERATING REVENUES**

For the year ended December 31, 2018, the Group generated net operating revenues amounting to ₱82.4 million, a 100% increased from the previous period ending December 31, 2017. Increased in net operating revenues is attributable to the opening of Donatela Hotel located in Bohol which commenced its commercial operation in 2018. The hotel currently has 12 upscale villas with pools, fine-dining restaurants and wine cellar. The Group to date has only one operational business throughout the year 2018 with main contribution of Donatela Hotel. Other tourism and hospitality projects of the Group are still in the process or construction. With the opening and first year commercial operation of Donatela Hotel, the Group posted total net operating revenue in various hotel services which composed of food and beverage services amounting to ₱48.89 million and room accommodation services amounting to ₱35.15 million representing 53% and 43%, respectively. Other hotel revenues generated amounted to ₱3.72 million which represents 4% of the total net operating revenues.

## **DIRECT COST AND EXPENSES**

Direct cost and expense of the Group for the period ended December 31, 2018 increased to ₱36.02 million which shows a ratio of 44% based on net operating revenues generated. Increased is generally attributable to the commencement of operation of Donatela Hotel which is in line with increased in revenues. Donatela Hotel is the only hotel arm of the Group which started its operation throughout 2018, thus all direct cost and expenses incurred is a result of the Group's operation function of the hotel. No direct expenses were incurred for the previous year ended December 31, 2017.

### Inventories consumed

For the period ended December 31, 2018, the Group's reported inventories consumption amounting to ₱19.79 million representing 55% of the total direct operating cost and 24% based on revenues. These consumption is mainly attributable to the operations of the restaurants and bars of the hotel in which guest are being accommodated.

### Salaries and wages

For the period ended December 31, 2018, the Group incurred total salaries and wages expenses amounting to ₱11.27 million representing short term benefits to its employees directly involved in providing hotel services and food and beverages. The salaries and wages expenses represents 31% of the total direct operating cost and 14% based on revenues.

### Other cost and expenses

Other cost and expenses incurred for the period ended December 31, 2018 amounted to ₱4.97 million which represents 14% of total direct cost and 6% based on revenues. Increased in expenses is brought by commissions and other departmental expenses incurred on the operation of the hotel. Refer to Note 14 of the audited financial statement for detailed breakdown of other expenses.

## **OPERATING EXPENSES**

The Group reported operating expenses amounting to ₱175.1 million for the year ended December 31, 2018 resulting to increased by ₱119.76 million or an increased by 216% year on year. Increased is mainly attributable to the commencement and ongoing construction related expenses of the The Emerald Hotel and Casino and operations of Donatela Hotel.

### Salaries and wages

Salaries and wages for the period ended December 31, 2018 increased to ₱63.71 million representing 36% of total operating expenses. Increased in expenses is attributable to labor expenses incurred in the construction of The Emerald Hotel and Casino as well as rationalization of manpower requirements for the supervision, management, direction and administration of the project.

### Taxes and licenses

Taxes and licenses for the period ended December 31, 2018 increased to ₱34.60 million representing 20% of the total operating expense. Such increased is attributable to payment of

share issuance related expenses, documentary stamp taxes and other permits, taxes and licenses related to borrowings and construction of The Emerald Hotel and Casino.

#### Other operating expenses

Of the total operating cost, expenses incurred representing 44% includes expenses related to the operation of Donatela Hotel such as management fees, professional fees, transportation, utilities expense and other operational expenses. Refer to Note 15 of the audited financial statement for the detailed composition of balances.

### **NONOPERATING EXPENSES**

#### Interest Expense

Interest expense (net of capitalized interest) represents interest charges for borrowings made from banks for short term, long term and mortgage loans. The Groups' Interest expense increased by ₱65.70 million same as 420% increased from previous year ended December 31, 2017. In 2018, the company i)entered into bridge loan agreement to extend the tenor of loan with the purpose of funding the escrow account as required by PAGCOR and facilitate construction of The Emerald Hotel and Casino and ii)obtained long term loan agreement with a bank to refinance the acquisition of Donatela Hotel resort.

#### Interest income

Interest income increased to ₱20.64 million for the period ended December 31, 2018 same as 71% increased year on year comparison. Increased is attributable to Interest Income recognized from escrow account opened by the Group to finance construction of The Emerald Hotel and Casino.

#### Foreign exchange gain/ (loss)

Foreign exchange gain/loss for the period has only minimal movement amounting to ₱0.43 million same as 3% decreased year on year. Foreign exchange loss recognized by the Group was influenced by substantial holdings of U.S dollar denominated escrow account in 2018 and cash in bank in 2017.

In both years, foreign denominated cash in bank and escrow account of the Group were exposed to short term fluctuations of exchange rates due to strengthening of Peso to US dollar towards year end resulting to foreign exchange loss.

### **PROVISION FOR INCOME TAX**

The Group reported increased in provision for income tax mainly due to recognition of deferred tax liabilities on debt issuance cost. The deferred tax liabilities will be amortized over the term of the loan which will benefit the Group in the succeeding periods by reducing the current tax liabilities.

### **NET LOSS**

The Group incurred net loss for the period amounting to ₱224.30 million. This represents increased in net loss by 193% year-on-year same as increased in net loss by ₱147.85 million. Loss for the period is attributable to expenses related to the ongoing construction of The Emerald Hotel and Casino, interest expenses incurred to finance the project of the Group and operational expenses of Donatela Hotel.

### **EARNINGS PER SHARE**

The loss per share increased from ₱0.3143 from December 31, 2017 to ₱0.7754 for December 31, 2018. Increased in loss per share is due to higher net loss posted by the Group for the period then ended.

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**Financial Position**  
**(Comparison of December 31, 2018 and December 31, 2017)**

|  | December 31            |                        | HORIZONTAL ANALYSIS      |                                      | VERTICAL ANALYSIS |                |
|--|------------------------|------------------------|--------------------------|--------------------------------------|-------------------|----------------|
|  | 2018                   | 2017                   | Movement from prior year | % of Total Assets/Liabilities&Equity | 2018              | 2017           |
| ASSETS   |                        |                        |                          |                                      |                   |                |
| <b>Current Assets</b>                          |                        |                        |                          |                                      |                   |                |
| Cash and cash equivalents                      | P 585,848,385          | P 185,586,738          | P 521,258,847            | 315%                                 | 10.07%            | 7.11%          |
| Trade and other receivables                    | 13,986,884             | 5,124,797              | 8,862,087                | 173%                                 | 0.21%             | 0.22%          |
| Advances to related parties                    | 45,083,343             | 351,404,302            | (306,336,859)            | -87%                                 | 0.68%             | 15.08%         |
| Inventories                                    | 1,781,389              | -                      | 1,781,389                | 100%                                 | 0.03%             | 0.00%          |
| Restricted fund                                | 139,955,985            | -                      | 139,955,985              | 100%                                 | 2.05%             | 0.00%          |
| Prepayments and other current assets           | 62,563,121             | 3,077,481              | 59,485,640               | 1933%                                | 0.92%             | 0.13%          |
| <b>Total Current Assets</b>                    | <b>850,182,087</b>     | <b>525,193,318</b>     | <b>424,988,769</b>       | <b>81%</b>                           | <b>13.84%</b>     | <b>22.55%</b>  |
| <b>Noncurrent Assets</b>                       |                        |                        |                          |                                      |                   |                |
| Property, plant and equipment                  | 3,932,239,892          | 473,910,002            | 3,458,329,890            | 730%                                 | 57.87%            | 20.35%         |
| Deposit for future property acquisition        | 111,430,494            | 470,887,887            | (359,257,373)            | -76%                                 | 1.63%             | 20.22%         |
| Cash in escrow                                 | 1,315,818,771          | 751,813,885            | 564,004,886              | 75%                                  | 19.30%            | 32.28%         |
| Input value-added tax                          | 280,192,636            | 21,784,439             | 258,428,387              | 1187%                                | 4.11%             | 0.93%          |
| Advances to suppliers                          | 213,337,217            | 84,242,355             | 129,094,862              | 153%                                 | 3.13%             | 3.62%          |
| Deferred tax asset                             | -                      | 503,124                | (503,124)                | -100%                                | 0.00%             | 0.02%          |
| Other noncurrent assets                        | 15,347,938             | 149,786                | 15,198,112               | 10147%                               | 0.23%             | 0.02%          |
| <b>Total Noncurrent Assets</b>                 | <b>5,868,467,108</b>   | <b>1,803,171,538</b>   | <b>4,065,295,570</b>     | <b>226%</b>                          | <b>86.07%</b>     | <b>77.45%</b>  |
| <b>TOTAL ASSETS</b>                            | <b>P 6,618,649,195</b> | <b>P 2,328,364,856</b> | <b>P 4,490,284,339</b>   | <b>193%</b>                          | <b>100.01%</b>    | <b>100.00%</b> |
| <b>LIABILITIES AND EQUITY</b>                  |                        |                        |                          |                                      |                   |                |
| <b>Current Liabilities</b>                     |                        |                        |                          |                                      |                   |                |
| Current portion of loans payable               | P 3,848,808,984        | P 1,849,124,884        | P 2,200,484,310          | 123%                                 | 58.48%            | 70.83%         |
| Accounts payable and other current liabilities | 397,254,283            | 125,533,173            | 271,721,120              | 216%                                 | 5.83%             | 6.38%          |
| Advances from related parties                  | 1,278,332,675          | 128,367,283            | 1,149,965,382            | 889%                                 | 18.76%            | 5.56%          |
| <b>Total Current Liabilities</b>               | <b>5,524,195,942</b>   | <b>1,904,025,150</b>   | <b>3,622,170,812</b>     | <b>190%</b>                          | <b>81.06%</b>     | <b>81.78%</b>  |
| <b>Noncurrent Liabilities</b>                  |                        |                        |                          |                                      |                   |                |
| Noncurrent portion of loans payable            | 964,864,863            | 787,089                | 964,075,974              | 12486%                               | 14.35%            | 0.03%          |
| Retention payable                              | 85,776,468             | -                      | 85,776,468               | 100%                                 | 1.28%             | 0.00%          |
| Deferred tax liabilities                       | 15,844,701             | -                      | 15,844,701               | 100%                                 | 0.23%             | 0.00%          |
| <b>Total Noncurrent Liabilities</b>            | <b>1,066,285,232</b>   | <b>787,089</b>         | <b>1,065,498,143</b>     | <b>135372%</b>                       | <b>15.94%</b>     | <b>0.03%</b>   |
| <b>Total Liabilities</b>                       | <b>6,590,481,174</b>   | <b>1,904,812,239</b>   | <b>4,687,668,935</b>     | <b>248%</b>                          | <b>96.68%</b>     | <b>82%</b>     |
| <b>Equity</b>                                  |                        |                        |                          |                                      |                   |                |
| Capital stock                                  | 4,386,889,813          | 243,241,509            | 4,143,648,303            | 1704%                                | 64.34%            | 10.45%         |
| Additional paid-in capital                     | -                      | 58,073,812             | (58,073,812)             | -100%                                | 0.00%             | 2.48%          |
| Equity reserve                                 | (4,080,000,000)        | 52,977,968             | (4,102,877,958)          | -7745%                               | -58.40%           | 2.28%          |
| Retained earnings (deficit)                    | (110,721,812)          | 88,258,543             | (179,981,355)            | -260%                                | -1.62%            | 2.97%          |
| <b>Total Equity</b>                            | <b>228,168,001</b>     | <b>423,552,817</b>     | <b>(197,384,816)</b>     | <b>-47%</b>                          | <b>3.32%</b>      | <b>18.19%</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>            | <b>P 6,618,649,195</b> | <b>P 2,328,364,856</b> | <b>4,490,284,339</b>     | <b>193%</b>                          | <b>100.00%</b>    | <b>100.00%</b> |

The total resources of the Group as of December 31, 2018 significantly increased by ₱4.50 billion or by 193% compared to the prior year balance of ₱2.33 billion. The assets, liabilities and equity presented in the balance sheet as at December 31, 2018 and 2017 resulted mainly from the business acquisitions and group restructuring, capital investments, project constructions, loan borrowings and pre-operating activities of the Group.

#### **Current Assets**

The Group's current assets increased by 81% from ₱525.19 million as of December 31, 2017 to ₱950.18 million as of December 31, 2018. The substantial increase in current assets in 2018 is attributable to the increase in cash and cash equivalents by 315%, trade and other receivables by 173%, inventories by 100%, restricted fund by 100% and prepayments and other current assets by 1,367% which were partially offset by the decrease in advances to related parties compared to the prior year 2017.

Cash and cash equivalents increased to ₱686.85 million as of December 31, 2018 from ₱165.59 million as of December 31, 2017. This is equivalent to 315% increase due to the additional loan borrowings obtained from several lenders and advances received from related parties. Moreover, the increase was primarily resulted from the net cash inflows provided by the financing activities as presented in the Group's consolidated cash flows as shown in the "Liquidity and Capital Sources" section.

Trade and other receivables increased by ₱8.86 million as of December 31, 2018. The increase is attributable to the trade receivables resulted from the business operations of DHPC and the outstanding receivable amounted to ₱10.0 million from the sale of AAPL.

Advances to related parties decreased by 87% or by ₱308.34 million primarily as a result of the collections of advances outstanding during the year and for the prior year 2017.

Inventories consists of food, beverage and operating supplies which increased by 100% or by ₱1.76 million as of December 31, 2018 from nil as of December 31, 2017. The inventories account is attributable to DHPC's business operations which started only in 2018.

Restricted fund amounted to ₱139.96 million as of December 31, 2018 as a result of the proceeds of the short-term loans and was held in the construction costs account which will be released in installments upon presentation of invoices for the payment of relevant project construction costs.

Prepayments and other current assets significantly increased to ₱62.66 million as of December 31, 2018 from ₱3.08 million as of December 31, 2017 due to the increase in prepaid expenses particularly on prepaid rental payments on the lease of the land. There is also an increase in the payments made as security and rentals deposits for various contracts to suppliers.

#### **Noncurrent Assets**

The Group's noncurrent assets increased by ₱4.07 billion from ₱1.80 billion as of December 31, 2017 to ₱5.87 billion as of December 31, 2018. The significant increase in noncurrent assets is attributable to the increase in property, plant and equipment by 730%, cash in escrow by 75%, input value-added tax by 1,187%, advances to suppliers by 153% and other noncurrent assets by 10,147%, which were partially reduced by the decrease in the deposit for future property acquisition and deferred tax asset compared to the prior year 2017.

Property, plant and equipment increased to ₱3.93 billion as of December 31, 2018 from ₱473.91 million as of December 31, 2017 due to the acquisition of the Donatela properties in Bohol and the accumulated costs incurred from the on-going construction of The Emerald Bay.

Deposit for future property acquisition decreased to ₱111.43 million as of December 31, 2018 from ₱470.69 million as of December 31, 2017. The deposit for acquisition of the Donatela

properties was already reclassified as costs of the property, plant and equipment as the deed of absolute sale was executed in August 2018. The decrease was partially offset by the additional deposit made by DPRC to acquire various parcels of land in Lanang, Davao City.

Cash in escrow increased by ₱564.00 million or by 76% as of December 31, 2018 attributable to the new escrow fund maintained by CGLC primarily to meet the requirements of the License Agreement with Philippine Amusement and Gaming Corporation (PAGCOR) in relation to its investment commitments.

Input-value added tax increased to ₱280.19 million as of December 31, 2018 from ₱21.76 million as of December 31, 2017. The increase was mainly due to the increase in VAT paid on purchases of goods and services of the Group which will be utilized against the Group's output VAT.

Advances to suppliers increased to ₱213.33 million as of December 31, 2018 from ₱84.24 million as of December 31, 2017 which was attributable to the increase in the construction cost requirements of the L3 project.

The deferred tax asset decreased to nil as of December 31, 2018 since the deferred tax asset for 2018 was presented as an offset to the deferred tax liabilities in the balance sheet. The deferred tax liabilities were much higher than the deferred tax asset in 2018.

Other noncurrent assets increased to ₱15.35 million as of December 31, 2018 from ₱0.15 million as of December 31, 2017. The increase was due to the increase in the long-term security deposits made to suppliers and other long-term prepayments.

#### **Current Liabilities**

The Group's current liabilities increased by ₱3.63 billion from ₱1.90 billion as of December 31, 2017 to ₱5.53 billion as of December 31, 2018. The significant increase in current liabilities is attributable to the increase in current portion of loans payable by 133%, accounts payable and other current liabilities by 216%, and advances from related parties by 889% compared to the prior year 2017.

Current portion of loans payable increased to ₱3.85 billion as of December 31, 2018 from ₱1.65 billion as of December 31, 2017. The increase was attributable to the short-term loans refinanced and additional drawdown of ₱2.2 billion was made and used to fund the construction of The Emerald Bay project on November 26, 2018.

Accounts payable and other current liabilities increased to ₱397.25 million as of December 31, 2018 from ₱125.53 million as of December 31, 2017 because of the increase in outstanding payable to contractors, accrued expenses such as accrued interest and taxes, management fees payable and advances from customers.

#### **Noncurrent Liabilities**

The Group's noncurrent liabilities increased by ₱1.07 billion from ₱0.79 million as of December 31, 2017 to ₱1.07 billion as of December 31, 2018. The significant increase in noncurrent liabilities compared to the prior year 2017 is attributable to the increase in the noncurrent portion of loans payable by ₱964.08 million, retention payable by ₱85.78 million, and deferred tax liabilities by ₱15.64 million.

Noncurrent portion of loans payable increased by ₱964.08 million from ₱0.79 million as of December 31, 2017 to ₱964.86 million as of December 31, 2018. The increase was attributable to long-term loans payable availed by DHPC on September 3, 2018 to refinance the acquisition of the hotel and resort in Bohol, net of debt issuance costs to be amortized within the term of the loan.

Retention payable amounted to ₱85.78 million as of December 31, 2018. This consists of outstanding payables to suppliers and contractors related to the construction of The Emerald Bay project.

Deferred tax liabilities increased to ₱15.64 million as of December 31, 2018 as a result of the deferred tax effect of the debt issuance costs related to the short-term and long-term loans availed in 2018 and the deferred tax on unrealized foreign exchange gain, net of any deferred tax assets recognized.

### **Equity**

The Group's equity decreased by ₱197.38 million from ₱423.55 million as of December 31, 2017 to ₱226.17 million as of December 31, 2018. The decrease in equity is attributable to the effect of the reverse acquisition resulting to the recognition of negative equity reserve amounted to ₱4.05 billion offsetting the increase in capital stock. In addition, the Group also incurred net losses or deficit in 2018 resulting from the Group's pre-operating and non-operating expenses. Share issuance costs were also incurred which reduced the amount of additional paid-in capital to nil in 2018.

Capital stock increased to ₱4.38 billion as of December 31, 2018 from ₱243.24 million as of December 31, 2017 as a result of the shares swap transaction between PH Resorts and Udenna which was fully completed on December 26, 2018. A total of 4.14 billion shares of PH Resorts was issued at ₱1.00 par value per share for a total share swap consideration of ₱4.14 billion. In addition, on December 21, 2018, 406.38 million shares were subscribed with a par value of ₱1.00 per share.

Subscription receivables amounted to ₱406.38 million as of December 31, 2018 was uncollected and is presented as a contra-equity account in the balance sheet. Thus, the effect in equity of the subscription of shares on December 31, 2018 was nil.

Additional paid-in capital decreased to nil as of December 31, 2018 from ₱58.07 million as of December 31, 2017 which was attributable to the share issuance costs amounted to ₱69.16 million and incurred by the Group in relation to the shares swap transaction between PH Resorts and Udenna, of which ₱58.07 million was presented as a direct deduction in the additional paid-in capital while ₱11.08 million was presented as a direct deduction in the retained earnings as at December 31, 2018.

Equity reserve amounted to ₱4.05 billion resulted from the shares swap transaction executed on December 26, 2018. Moreover, the transaction was accounted for similar to a reverse acquisition. The equity reserve represents the net difference between the cost of PH Resorts to acquire PH Travel Group and the legal capital of the latter at the date of reverse acquisition. Accordingly, the consolidated financial statements of PH Resorts have been prepared as a continuation of the financial statements of the PH Travel and subsidiaries. Thus, for 2017, an equity reserve amounted to ₱52.98 million was recognized to account the difference in the prior year balances after the effect of the reverse acquisition.

The retained earnings amounted to ₱69.26 million as of December 31, 2017 decreased and resulted to a deficit amounted to ₱110.72 million as of December 31, 2018. The deficit is attributable to the net comprehensive loss reported of ₱224.30 million and share issuance costs amounted to ₱11.08 million, net of the effect of reverse acquisition of ₱55.40 million.

### **Financial Risk**

Please refer to Notes 19 and 20 of the Notes to Consolidated Financial Statements for the description, classification and measurements applied for financial instruments and the financial risk management objectives and policies of the group.

## Key Performance Indicators

|   |   | December   |                             |
|---|---|--|-----------------------------|
|   |   | 2018   | 2017                        |
| <b>I. PROFITABILITY</b>   |   |  |                             |
| <b>Basic Loss per Share</b>   | = | (Net income – Preferred dividends)                   | (224,301,582) (76,447,383)  |
|   |   | Weighted average number of common shares outstanding | 300,003,810 243,241,504     |
| It is the rough measurement of the amount of a company's profit that can be allocated to one share of its stock.                |   |  |                             |
|   |   | (0.7477)   | (0.3143)                    |
| <b>Return on Total Assets</b>   | = | NI+ {(interest exp x (1-tax rate))}                  | (281,250,021) (87,405,394)  |
|   |   | Ave. Total Assets                                    | 4,573,526,227 2,328,364,856 |
| It measures efficiency of the Group in using its assets to generate net income.   |   |  |                             |
|   |   | (0.0615)   | (0.0375)                    |
| <b>Return on Equity</b>   | = | Annual Net Income/Loss                               | (224,301,582) (76,447,383)  |
|   |   | Ave. Stockholder's Equity                            | 324,860,422 423,552,617     |
| It is a measure of profitability of stockholders' investments. It shows net income as percentage of shareholder equity.         |   |  |                             |
|   |   | (0.6905)   | (0.1805)                    |
| <b>II. FINANCIAL LEVERAGE</b>   |   |  |                             |
| <b>Debt Ratio</b>   | = | Total Liabilities                                    | 6,592,481,194 1,904,812,239 |
|   |   | Total Assets   | 6,818,649,195 2,328,364,856 |
| It is a measure of profitability of stockholders' investments. It shows net income as percentage of shareholder equity.         |   |  |                             |
|   |   | 0.9668   | 0.8181                      |
| <b>Debt to Equity Ratio</b>   | = | Total Liabilities                                    | 6,592,481,194 1,904,812,239 |
|   |   | Shareholder's Equity                                 | 226,168,001 423,552,617     |
| It measures the degree to which the assets of the business are financed by the debts and the shareholders' equity of a business |   |  |                             |
|   |   | 29.1486  | 4.4972                      |

### III. MARKET VALUATION

|  |          |                    |        |      |
|--|----------|--------------------|--------|------|
| <b>Price to Book Ratio</b>   | <b>=</b> | Market value/share | 5.45   | 6.15 |
|  |          | Book value/share   | 0.05   | 1.74 |
| Relates the Group's stock market value to its book value per share |          |                    | 105.71 | 3.53 |

### IV. LIQUIDITY

|   |   |                     |               |               |
|---|---|---------------------|---------------|---------------|
| Current Ratio   | = | Current assets      | 960,182,087   | 526,193,318   |
|   |   | Current liabilities | 5,526,195,962 | 1,904,025,150 |
| It measures the Group's ability to pay its current liabilities with cash generated from its current assets. |   |                     | 0.1719        | 0.2758        |

### Liquidity and Capital Structure

The Group's sources and uses of funds and the Group's debt and equity profile will be discussed below.

#### Liquidity

Below is the table of consolidated cash flows of the Group for the year ended December 31, 2018 and 2017.

|  | For the Year Ended December 31 |                 | Movement from prior period |             |
|--|--------------------------------|-----------------|----------------------------|-------------|
|  | 2018                           | 2017            | Change in Peso             | Change in % |
| Net cash provided by (used in) operating activities                              | P 372,248,002                  | (P 285,177,996) | P 657,425,998              | -231%       |
| Net cash used in investing activities  | (3,958,704,790)                | (1,785,570,519) | (2,173,134,271)            | 122%        |
| Net cash provided by financing activities  | 4,069,803,063                  | 2,252,848,308   | 1,816,954,755              | 81%         |
| Net increase in cash and cash equivalents  | 483,346,275                    | 182,199,793     | 301,146,482                | 165%        |
| Effect of foreign exchange on cash and cash equivalents                          | 473,280                        | (16,613,055)    | 17,086,335                 | -103%       |
| Cash and cash equivalents at beginning of period - effect of reverse acquisition | 37,440,093                     | -               | 37,440,093                 | 100%        |
| Cash and cash equivalents at beginning of period                                 | 185,586,738                    | -               | 185,586,738                | 100%        |
| Cash and cash equivalents at end of period                                       | P 686,846,385                  | P 185,586,738   | 521,259,647                | 316%        |



Cash and cash equivalents increased by ₱521.26 million or by 315% from ₱165.59 million as of December 31, 2017 to ₱686.85 million as of December 31, 2018. The significant increase is attributable to the net cash provided in operating activities and the net cash provided by financing activities which partially offset the net cash used in investing activities. As a result of the reverse acquisition, PH Resorts' cash and cash equivalents as at the date of reverse acquisition, December 26, 2018, was recognized as a cash inflow amounted to ₱37.44 million in the consolidated cash flows of the Group for the year ended December 31, 2018.

The net cash provided by operating activities amounted to ₱372.25 million for the year ended December 31, 2018 resulted from the collection of advances to related parties by ₱339.61 million from ₱351.40 million as of December 31, 2017; and the increase in outstanding accounts payable and other current liabilities by ₱209.19 million for the year ended December 31, 2018.

The net cash used in investing activities amounted to ₱3.96 billion for the year ended December 31, 2018 and ₱1.79 billion for the year ended December 31, 2017. These investing activities include the acquisition of property, plant and equipment; increase in noncurrent assets such as advances to suppliers, input value-added tax, and other noncurrent assets; transfer of cash to escrow fund as part of PAGCOR requirements; and the cash derecognized as a result of the deconsolidation of a subsidiary. These were partially reduced by the interest income earned and the decrease in the deposit for future property acquisition.

The net cash provided by financing activities amounted to ₱4.07 billion for the year ended December 31, 2018 and ₱2.25 billion for the year ended December 31, 2017. These financing activities mainly represent the advances received from related parties; increase in retention payable; proceeds from loan borrowings, net of payments made; and the proceeds from the issuance of capital stock. These were partly lessened by the share issuance costs and debt issuance costs for the year 2018.

### Capital Sources

Below is the table showing the Group's capital sources as of December 31, 2018 and 2017.

|                                 | For the Year Ended December 31 |               | Movement from prior period |             |
|---------------------------------|--------------------------------|---------------|----------------------------|-------------|
|                                 | 2018                           | 2017          | Change in Peso             | Change in % |
| Long-term debt, net             | ₱ 954,869,063                  | ₱ 787,089     | 954,076,934                | 122485%     |
| Equity                          | 226,168,226                    | 423,552,617   | (197,384,391)              | -47%        |
| Total long-term debt and equity | ₱ 1,191,032,289                | ₱ 424,339,706 | 766,692,583                | 181%        |

Total long-term debt and equity increased by ₱766.70 million from ₱424.34 million for the year 2017 and ₱1.19 billion for the year 2018. The increase was attributable to the long-term loan borrowings obtained by the Group in 2018 and partially reduced by the net loss incurred by the Group for the year ended December 31, 2018.

Refer to Note 13 of the Notes to the Consolidated Financial Statements for the detailed discussion.

**Events that will trigger Direct or Contingent Financial Obligation that is Material to the Company, including any Default or Acceleration of an Obligation**

None

**Material Off-Balance Sheet Transactions, Arrangements, Obligations (including Contingent Obligations), and Other Relationships of the Company with Unconsolidated Entities or Other Persons created during the Reporting Period**

None

**Known Trends, Demands, Commitments, Events or Uncertainties that will have a Material Impact on Liquidity or that are reasonably expected to have a Material Favorable or Unfavorable Impact on Net Sales/Revenues/Income from Continuing Operations**

None

**Cause for any Material Changes from period to period which shall include Vertical and Horizontal Analyses of any Material Item**

This is already incorporated in the discussion under "Results of Operations" and "Financial Position".

**Seasonal Aspects that has a Material Effect on the Financial Statements**

None

**Material Commitments for Capital Expenditures, General Purpose of such Commitments, Expected Sources of Funds for such Expenditures**

The Group has budgeted ₱34,177.0 million as the total cost associated with developing the first phase of The Emerald Bay and ₱13,670.8 million as the total cost associated with developing the Clark Resort.

These projects are currently funded by the Company's existing equity of ₱1,906.4 million and approximately ₱33,493.5 million is expected to be funded by debt. The Company already has ₱3,888.7 million in committed loan facilities, comprising ₱3,100.0 million and ₱788.7 million under its facilities with China Bank and is in the advanced stages of negotiating additional financing lines from various creditors, part of the proceeds of which will be used to in part refinance the Company's existing committed loan facilities.

**Any Significant Elements of Income or Loss that did not arise from Continuing Operations**

None

#### **Changes in and disagreements with accountants on accounting and financial disclosure**

There were no significant changes in and disagreements with accountants on accounting and financial disclosures.

#### **Restatement of Accounts**

None

#### **Market Information**

There are 243,241,501 common shares of the Company that are listed on the Philippine Stock Exchange. There are 4,550,025,000 common shares that are issued and outstanding shares but are currently not listed in any exchange.

The high and low sales prices for each quarter within the last two years for each quarter are indicated in the table below:

| <b>Quarter</b>               | <b>High</b> | <b>Low</b> |
|------------------------------|-------------|------------|
| 1 <sup>st</sup> quarter 2019 | 7.93        | 4.55       |
| 4 <sup>th</sup> quarter 2018 | 5.80        | 4.18       |
| 3 <sup>rd</sup> quarter 2018 | 7.35        | 4.90       |
| 2 <sup>nd</sup> quarter 2018 | 7.05        | 4.78       |
| 1 <sup>st</sup> quarter 2018 | 6.80        | 5.00       |
| 4 <sup>th</sup> quarter 2017 | 10.80       | 5.85       |
| 3 <sup>rd</sup> quarter 2017 | 9.80        | 5.90       |
| 2 <sup>nd</sup> quarter 2017 | 6.70        | 3.50       |
| 1 <sup>st</sup> quarter 2017 | 3.95        | 3.58       |

The price of the shares as of 1 April 2019, or the latest practicable trading date, is ₱4.78 per share. The market capitalization of PHR as of 31 December 2018, based on the closing price on 28 December 2018 of ₱5.45 per share is ₱26,123,302,446.80. As of 31 December 2017, PHR's market capitalization stood at ₱1,493,502,835 based on the closing price of ₱6.14 per share and a total issued and outstanding capital stock of 243,241,504 common shares.

#### **Holders**

As of 31 December 2018, the Company has over 100 beneficial shareholders. The top 20 shareholders are the following:

| <b>Shareholder</b>               | <b>Number of Common Shares Subscribed</b> | <b>% of Ownership</b> |
|----------------------------------|---|-----------------------|
| Udenna Corporation               | 4,313,927,702                             | 90.00%                |
| Novel Edge Investments Limited   | 225,283,530                               | 4.70%                 |
| Conrado Rafael C. Alcantara      | 95,865,330                                | 1.99%                 |
| Marco Angelo C. Alcantara        | 85,227,831                                | 1.78%                 |
| PCD Nominee Corp. (Filipino)     | 60,093,822                                | 1.39%                 |
| PCD Nominee Corp. (Non-Filipino) | 12,739,601                                | 0.27%                 |
| Yu Kok See                       | 106,272                                   | 0.04%                 |
| Marcial T. Asturias              | 7,200                                     | 0.00%                 |
| William W. Yap                   | 5,300                                     | 0.00%                 |
| Rogelio N. Pascua                | 3,024                                     | 0.00%                 |
| Miguel de Castro Marana /        | 3,000                                     | 0.00%                 |

|   |       |       |
|---|-------|-------|
| <b>Bituin de Castro Marana</b>              |       |       |
| Lillian G. Morelos                          | 2,160 | 0.00% |
| Eric O. Recto                               | 1,000 | 0.00% |
| Vicente L. Pang                             | 432   | 0.00% |
| Shareholders Association of the Philippines | 100   | 0.00% |
| Dondi R. Limengco                           | 111   | 0.00% |
| Nathaniel Au ITF Marcus Li                  | 75    | 0.00% |
| Ernesto S. Isia                             | 2     | 0.00% |
| Dexter E. Quintana                          | 2     | 0.00% |
| Dennis A. Uy                                | 1     | 0.00% |

## **Dividends**

On 20 February 2018, the BOD of Philippine H2O Ventures Corp. declared cash dividends amounting to ₱58,000,000 or ₱0.42 per share out of the retained earnings as of 31 December 2017.

## **Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction**

On 26 December 2018, the Company issued a total of 4,550,025,000 shares, 4,143,648,309 of which were issued to Udenna Corporation and the balance of 406,376,691 to other subscribers.

## **External Audit Fees**

Constantino Guadalquivir and Co. ("CGCo"), independent certified public accountants, audited the Company's consolidated financial statements without qualification as of and for the years ended December 31, 2016 and 2015, included in this report.

With the change of ownership and management, Audit Committee appointed Sycip, Gorras, Velayo and Co. ("SGV"), independent certified public accountants, as the new external auditor. SGV audited the Company's consolidated financial statements without qualification as of and for the year ended December 31, 2018, included in this report.

Maria Pilar Hernandez is the current audit partner for the Company and its subsidiaries. Pursuant to SEC Memorandum Circular No. 8, Series of 2003, the Company will either change its External Auditor or rotate the engagement partner every five (5) years.

There have been no disagreements between the Company and SGV over the length of their relationship with regard to any matter involving accounting principles or practices, financial statement disclosures, and auditing scope and procedures.

SGV has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants, or rights thereto). The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

In connection with the audit of the Company's financial statements, the Audit Committee had, among other activities, (a) evaluated significant issues reported by the external auditor in relation to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company; (b) ensured that no other work is provided by the external auditor

that would impair its independence and conflict with its function as Independent accountants; and (c) ensured the compliance of the Company with acceptable auditing and accounting standards and regulations.

The external audit service fees amounted to ₱2.50 million in 2018 and ₱0.48 million in 2017 for the professional services rendered for the audit of the PH Resorts and its subsidiaries for their annual consolidated and standalone financial statements. The external review service fees amounted to ₱4.55 million in 2018 and nil in 2017 for the review of the interim and proforma financial statements. Other non-audit service fees amounted to ₱0.15 million in 2018 and ₱0.03 million in 2017 for the agreed-upon procedures engagements related to PAGCOR's DE ratio certification compliance. Out-of-pocket expenses were incurred amounted to ₱0.32 million in 2018 and nil in 2017 related to the other costs incurred incidental to the services engagements.

The services are those normally provided by the external auditor in connection with statutory and regulatory filings or engagements. There had been no consulting or tax engagements with SGV.

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**MINUTES OF THE REGULAR MEETING  
OF THE  
BOARD OF DIRECTORS  
OF  
PHILIPPINE H2O VENTURES CORP.**

**Held at Seda Hotel, Vertis North, Quezon City  
On 25 June 2018**

**PRESENT**

Dennis A. Uy  
Cherylyn C. Uy  
Raymundo Martin M. Escalona  
Lara C. Lorenzana  
Jose Angel Sueiro  
Leandro E. Abarquez

**PROCEEDINGS**

**I. OPENING PRAYER AND CALL TO ORDER**

After the opening prayer led by the Chairman, Mr. Dennis A. Uy, he called the meeting to order and presided over the same. The Corporate Secretary, Atty. Leandro E. Abarquez, recorded the minutes.

**II. CERTIFICATION OF NOTICE AND QUORUM**

The Corporate Secretary certified that notice of the meeting of the Board was sent to all the directors of the Corporation, that at least a majority of the directors were present, and that there was therefore a quorum to transact business in the meeting.

**III. READING AND APPROVAL OF THE  
MINUTES OF THE PREVIOUS MEETINGS**

After reading the minutes of the regular meeting of the Board of Directors held on 1 June 2018, upon motion made and seconded, the directors approved the said minutes as presented to them.

**IV. ITEMS FOR APPROVAL**

Upon motion made and seconded, the Board passed and approved the following resolutions:

4.1 Authority to issue common shares out of the proposed increase in capital stock

**"RESOLVED**, that the Corporation be, as it is hereby authorized, to issue 4,143,648,309 common shares out of the proposed increase in authorized capital stock to Udenna Corporation, in exchange for the assignment by Udenna Corporation of 455,346,000 shares of PH Travel and Leisure Holdings Corp.

**RESOLVED, FURTHER**, that the Corporation be, as it is hereby authorized, to issue 406,351,691 common shares, or such number of shares to ensure continued compliance of the Corporation of its minimum public float, out of the shares of the proposed increase in authorized capital stock to unrelated and unaffiliated third parties to be identified by the President of the Company.

**"RESOLVED, FURTHER**, that **Raymundo Martín Escalona**, President of the Company, shall be, as he is hereby authorized, to execute and sign, for and on behalf of the Company, documents as may be necessary including but not limited to the Deed of Assignment, certifications, authorization letters, BIR Forms, etc., to implement the transfer of shares of stock of the Company in exchange for the shares of stock of Udenna Corporation in PH Travel and Leisure Holdings Corp.

**"RESOLVED, FINALLY**, that the foregoing resolution shall continue and remain in full force and effect until repealed and/or amended by subsequent resolutions of the Board of Directors."

#### 4.2 Authority to purchase shares of PH Travel and Leisure Holdings Corp.

**"RESOLVED**, that the Corporation is hereby authorized and empowered to purchase 44,654,000 shares of PH Travel and Leisure Holdings Corp. from Udenna Corporation and execute the appropriate Deed of Assignment for the purchase of such shares.

**"RESOLVED, FURTHER**, that the President of the Corporation, **Mr. Raymundo Martín Escalona**, be as he is hereby, authorized and empowered, with full power of delegation, for and on behalf of the Corporation to execute, sign and deliver the Deed of Assignment and to take such action and to execute and deliver any and all such agreements, transaction documents, instruments, certificates, notices and/or communications in connection with the Deed of Assignment as may be considered necessary or desirable to accomplish the purposes of these resolutions and to perform fully and effectively the transactions contemplated thereby."

**4.3 Designation of Authorized Representative to sign the Listing Application of the Swap Shares and Authority to electronically lodge the swap shares with the Philippine Depository and Trust Corporation ("PDTC")**

**"WHEREAS, the Board of Directors, in their meeting held on 25 June 2018, authorized the Corporation to issue 4,143,648,309 common shares out of the proposed increase in its authorized capital stock (the "Swap Shares") to Udenna Corporation, in exchange for the assignment of Udenna Corporation of 455,346,000 common shares of PH Travel and Leisure Holdings Corp. (the "Share Swap Transaction");**

**"NOW THEREFORE, BE IT RESOLVED, AS IT HEREBY RESOLVED, that, in the implementation of the Share Swap Transaction, the Corporation is hereby authorized to apply with the Philippine Stock Exchange ("PSE") for listing of the Swap Shares, subject to the registration requirements of the Securities and Exchange Commission and the listing requirements of the PSE;**

**"RESOLVED, FURTHER, that, in connection with the application for listing of the Swap Shares, the Corporation is hereby authorized to file and submit the Application for Listing including all necessary exhibits and annexes thereto, the Listing Agreement, and any other such documents required by the PSE;**

**"RESOLVED, FURTHER, that MR. RAYMUNDO MARTIN M. ESCALONA, President of the Corporation, be authorized, as he is hereby authorized, to sign, execute and file the Application for Listing, Listing Agreement, and any and all required agreements, certificates and other documents with the PSE and other government agencies, as well as do all things necessary or appropriate to effect the foregoing resolutions;**

**"RESOLVED, FURTHERMORE, that the Corporation be authorized to electronically lodge the Swap Shares with the PHILIPPINE DEPOSITORY AND TRUST CORPORATION ("PDTC");**

**"RESOLVED, FINALLY, that the Corporation approves and ratifies, as it hereby approves and ratifies, any and all acts done by the Management of the Corporation or any of the authorized signatories in connection with the registration and listing of the Swap Shares."**

**4.4 Amendment of the Corporation's Articles of Incorporation**



**"RESOLVED**, that Article First of the Articles of Incorporation of the Corporation be, as it is hereby amended, to read as follows:

**FIRST:** That the name of the Corporation shall be:  
PH Resorts Group Holdings, Inc. (As amended on 25 June 2018)

**"RESOLVED, FURTHER**, that Article Second of the Articles of Incorporation be as it is hereby amended to read as follows:

**SECOND:** The purpose for which the Corporation is formed are:

**PRIMARY**

"The primary purpose of the Corporation is to subscribe, acquire, hold, sell, assign, or dispose of shares of stock and other securities of any corporation including those engaged in the hotel and/or gaming and entertainment business, without however engaging in the dealership of securities or in the stock brokerage business or in the business of an investment company, to the extent permitted by law, and to be involved in the management and operations of such investee companies; and to guarantee the obligations of its subsidiaries or affiliates or any entity in which the Corporation has lawful interest." (As amended on 25 June 2018)

**"RESOLVED, FURTHER**, that Article Third of the Articles of Incorporation be as it is hereby amended to read as follows:

**THIRD:** The principal office of the Corporation shall be established or located in GGDC Administrative Services Building, Clark Global City, Clark Freeport Zone, Pampanga, Philippines 2023(As amended on 25 June 2018)

**"RESOLVED, FURTHER**, that Article Sixth of the Articles of Incorporation be as it is hereby amended to read as follows:

**SIXTH:** The number of directors of the Corporation shall be Nine (9) (As Amended on 25 June 2018).

**"RESOLVED, FINALLY**, that Article Seventh of the Articles of Incorporation of the Company be as it is hereby amended to read as follows:

**SEVENTH:** That the authorized capital stock of the corporation is Eight Billion (Php8,000,000,000.00) pesos, divided into Eight Billion (8,000,000,000.00) shares with the par

value of One (Php1.00) peso per share. (As amended on 25 June 2018)."

V. ADJOURNMENT

There being no further matters to discuss, the meeting was, upon motion made and seconded, adjourned.

Certified Correct:

  
LEANDRO E. ABARQUEZ  
Corporate Secretary

Attested by:

DENNIS A. UY  
Chairman

Minutes Read and Approved:

Cherylyn C. Uy

Raymundo Martin M. Escalona

Lara C. Lorenzana

Jose Angel Sueiro


**NAME OF CORPORATION: PH RESORTS GROUP HOLDINGS, INC.****Summary of Resolutions**

| <b>Date</b>     | <b>Contents</b>   |
|-----------------|---|
| 25 June 2018    | <p>Issuance of 4,143,648,309 common shares out of the proposed increase in the authorized capital stock to Udenna Corporation, in exchange for the assignment by Udenna Corporation of 454,346,000 shares of PH Travel and Leisure Holdings Corp.</p> <p>Purchase of 44,654 shares of PH Travel and Leisure Holdings Corp. from Udenna Corporation.</p> <p>Designation of Raymundo Martin Escalona as the authorized officer to sign, execute, deliver any and all documents in connection with the Deed of Assignment.</p> <p>Amendment of Article 1 of the Articles of Incorporation to reflect the change in corporate name to PH Resorts Group Holdings, Inc.</p> <p>Amendment of Article 2 of the Articles of Incorporation to reflect the change in the primary purpose of the Corporation to: "The primary purpose of the Corporation is to subscribe, acquire, hold, sell, assign, or dispose of shares of stock and other securities of any corporation including those engaged in the hotel and/or gaming and entertainment business, without however engaging in the dealership of securities or in the stock brokerage business or in the business of an investment company, to the extent permitted by law, and to be involved in the management and operations of such investee companies; and to guarantee the obligations of its subsidiaries or affiliates or any entity in which the Corporation has lawful interest."</p> <p>Amendment of Article 3 of the Articles of Incorporation to reflect the change in address to GGDC Administrative Services Building, Clark Global City, Clark Freeport zone, Pampanga, Philippines 2023.</p> <p>Amendment of Article 6 of the Articles of Incorporation to reflect the change in the number of directors to nine (9).</p> <p>Amendment of Article 7 of the Articles of Incorporation to reflect the increase in authorized capital stock to Php8,000,000,000.00 divided into 8,000,000,000.00 shares with a par value of Php1.00 per share. Authority given to the Corporate Secretary to file the requisite documents and secure the necessary approvals to effectuate the amendments in the Corporation's articles.</p> |
| 24 October 2018 | <p>Authority to convey to China Banking Corporation – Trust and Asset Management Group, as security trustee and acting on behalf and for the benefit of China Banking Corporation, by way of a first ranking pledge, and as partial security for the prompt and full payment of the Loan Facility and all other existing and future</p>   |

|                  |  |
|------------------|--|
|                  | <p>obligations of any of Lapulapu Leisure, Inc. and Lapulapu Land Corp. or the Corporation with the Lender the following assets:</p> <ol style="list-style-type: none"> <li>All the shares of the capital stock of Lapulapu Land Corp. (LLC) and Lapulapu Leisure, Inc. (LLI) that are owned by the Corporation and all the shares of stock in LLC and LLI that are legally and beneficially owned by the Corporation.</li> <li>Any and all additional shares of the capital stock LLC and/or LLI that may be acquired by the Corporation in the future and all the shares of stock in LLC and/or LLI that will be legally and/or beneficially owned by the Corporation in the future.</li> </ol> <p>Designation of Dennis A. Uy and Raymundo Martin M. Escalona as the Corporation's authorized representatives in connection with the abovementioned pledge.</p> |
| 29 November 2018 | <p>Designation of Authorized Signatories for all Corporate Bank Accounts</p> <p>Designation of Dennis A. Uy and Cherylyn C. Uy (Class A signatories), Raymundo Martin M. Escalona and Ma. Concepcion F. De Claro (Class B signatories), Lara C. Lorenzana and Michael P. Tejada (Class C signatories) as authorized officers to enter into arrangements and to perform any and all acts necessary for the maintenance of the Corporation's existing bank accounts.</p> <p>Designation of Lara C. Lorenzana and Michael P. Tejada as the Corporation's authorized representatives to eFile and ePay the income tax returns and all other tax returns of the Corporation using the EFPS of the BIR.</p>  |
| 24 January 2019  | <p>Designation of Janel Lagahit, Ianna Ren Pandian, Raymart Jutba to secure certified true copies of the Corporation's Certificate Authorizing Registration (CAR) with the BUREAU OF INTERNAL REVENUE (BIR) in connection with the sale of shares by Udenna Corporation of PH Travel and Leisure Holdings Corp. to Philippine H2O Ventures Corp., and to receive the certified true copies from the BIR.</p>   |
| 11 February 2019 | <p>Resignation of Ms. Cherylyn C. Uy as the Corporation's Treasurer and subsequent designation of Ms. Lara C. Lorenzana as her replacement.</p>  |
| 12 February 2019 | <p>Designation of Michael P. Tejada as the Corporation's authorized signatory for all its applications, requests and other documents to be submitted to the Bureau of Internal Revenue (BIR).</p> <p>Designation of Kristalene Joy S. Cruz and Marvin L. Agsalda, to file, process, and claim for and in behalf of the Corporation any and all of its documents with the BIR.</p>  |
| 14 March 2019    | <p>Authority to apply for the retirement of its business registration effective 14 March 2019 with Quezon City, and for the business registration of the Corporation in the Clark Global City, Clark</p>   |

|  |  |
|--|--|
|  | <p>Freeport Zone, Pampanga;</p> <p>Designation of Raymundo Martin M. Escalona, to sign, execute and deliver, for and on behalf of the Corporation, the application forms, and all other documents as may be required or necessary to secure the foregoing application:</p> |
|--|--|

Certified Correct:

  
\_\_\_\_\_  
Leandro E. Abarquez  
Corporate Secretary

**PH RESORTS GROUP HOLDINGS INC.**  
**ANNUAL SHAREHOLDERS' MEETING**  
May 23, 2019 at 11:00 A.M.  
Quest Hotel and Conference Center, Clark  
Fillinvest Mimosa + leisure estate,  
Mimosa Dr, Clark Freeport, zone, 2023 Pampanga

**PROXY**

I/WE, the undersigned shareholder of PH Resorts Group Holdings, Inc., hereby appoint, name, and constitute:

or in his absence,

the Chairman of the Board, or in the latter's absence, the Secretary of the Meeting, as my attorney-in-fact and proxy, to represent me at the annual stockholders' meeting of the Company on Monday, 23 May 2019 at 11:00 a.m. and any adjournment(s) thereof, as fully and to all intents and purposes as I might or could if present and voting in a person, hereby ratifying and confirming any and all actions taken on matters which may properly come before such meeting or adjournment(s) thereof.

In particular, I/We hereby direct my/our said proxy to vote all my/our shares on the agenda items set forth below as I/We have expressly indicated by marking the same with an "X".

| Items   | Action |         |         |
|---|--------|---------|---------|
|   | For    | Against | Abstain |
| 1. Approval of Minutes of Meeting of Stockholders held on 25 June 2018  |        |         |         |
| 2. Approval of the Audited Financial Statements as of 31 December 2018  |        |         |         |
| 3. Ratification and confirmation of all acts and resolutions of the Board and Management executed in the normal course of business covering the period 25 June 2018 to 30 April   |        |         |         |
| 4. Approval of the Amendments of the Articles of Incorporation of the Corporation for the following matters:  |        |         |         |
| <ul style="list-style-type: none"> <li>To change the principal office of the Corporation is located from GGDC Administrative Services Building, Clark Global City, Clark Freeport Zone, Pampanga, Philippines 2023 to Udena Tower, 4th Ave. cor. Rizal Drive, Bonifacio Global City, Taguig City</li> </ul>   |        |         |         |
| <ul style="list-style-type: none"> <li>To increase the authorized capital stock of the Corporation from Php 8,000,000,000 to up to Php15,000,000,000 divided into 15,000,000,000 common shares or as determined by the Board of Directors.</li> </ul>   |        |         |         |
| 5. Approval of the Amendment of the By-Laws of the Corporation to change date of the annual shareholders meeting from the 3rd Wednesday of June to the 3rd Wednesday of May.  |        |         |         |
| 6. Approval of the merger of the Company with its subsidiary, PH Travel and Leisure Holdings Corp.  |        |         |         |
| 7. Approval of the acquisition of 100% of the issued and outstanding common shares of Lapulapu Land Corp. by the Company's subsidiary, Lapulapu Leisure, Inc. at the consideration determined by the Board of Directors   |        |         |         |
| 8. Approval of the grant of authority to the Board of Directors to issue such number of shares of stock out of the existing capital stock and increase in authorized capital stock and at an issue price of not less than par value as the Board of Directors may determine and to accept cash or non-cash properties as payment for such subscription and the listing of such shares with the Philippine Stock Exchange. |        |         |         |

|   |  |  |  |
|---|--|--|--|
| 9. Approval of issuance of shares pursuant to an equity offering, private placement, or similar transaction to be determined by the Board and the listing of such shares. |  |  |  |
| 10. Approval of the Company's Employee Stock Incentive Plan.  |  |  |  |
| 11. Election of the Board of Directors for 2019.  |  |  |  |
| 12. Appointment of External Auditors  |  |  |  |

- Printed Name of Stockholder -

- Authorized Signatory -

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE 17 MAY 2019. THIS PROXY WILL BE VALIDATED BY A COMMITTEE OF INSPECTORS ON 20 MAY 2019 AT 10:00 O'CLOCK IN THE MORNING AT THE PRINCIPAL OFFICE OF THE COMPANY. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON. THIS PROXY DOES NOT NEED TO BE NOTARIZED. (Partnerships, Corporations and Associations must attach certified resolutions designating their proxies/representatives and authorized signatories.)