



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

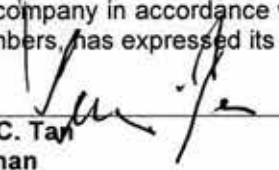
The management of **Eton Properties Philippines, Inc. and its subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


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

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

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

SGV & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.



Lucio C. Tan
Chairman

Lucio K. Tan Jr.
President

Wilfredo Z. Pineda
Chief Financial Officer

MAR 05 2018

Republic of the Philippines)

MAKATI CITY

) S.S.

Personally appeared before me the following persons known to me and known to be the same persons who executed the foregoing and they acknowledged to me that the same is their free and voluntary act and deed, in the capacities in which they appear.

The parties presented their respective competent evidence of identity as follows:

<u>Name</u>	<u>TIN/SSS/Passport/Driver's License No.</u>	<u>Date & Place of Issue</u>
Lucio C. Tan	X01-52-000850	July 17, 2016/Quezon City
Lucio K. Tan Jr.	EC1401914	June 13, 2019/Manila
Wilfredo Z. Pineda	03-5991498-6	


MAR 05 2018 IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal on this 05 day of March, 2018 At MAKATI CITY.

Doc. No. 306

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Book No. LXVII

Series of 2018


Notary Public for Makati City
Roll of Attorneys No. 35358
PTR No. 6607881/01-03-2018
IBP Lifetime Member No. 00104
6/F 6754 Ayala Avenue, Makati City
MCLE Compliance No. V-0015369/03-02-2016
Commission No. M-141 until 31 December 2018

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

E	T	O	N		P	R	O	P	E	R	T	I	E	S		P	H	I	L	I	P	P	I	N	E	S	,		
I	N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S									

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

8	/	F		A	L	L	I	E	D		B	A	N	K		C	E	N	T	E	R	,		6	7	5	4		
A	Y	A	L	A		A	V	E	N	U	E	,		M	A	K	A	T	I		C	I	T	Y	,				
M	E	T	R	O		M	A	N	I	L	A	,		P	H	I	L	I	P	P	I	N	E	S					

Form Type

A	C	F	S
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	A
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COMPANY INFORMATION

Company's Email Address

www.eton.com.ph

Company's Telephone Number

(632) 548-4000

Mobile Number

N/A

No. of Stockholders

1,665

Annual Meeting (Month / Day)

May 31

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Lennie S. Magnaye

Email Address

lennie.magnaye@eton.com.ph

Telephone Number/s

(632) 548-4000

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

8th Floor, Allied Bank Center, 6754 Ayala Avenue, Makati City

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

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



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Eton Properties Philippines, Inc.
8/F Allied Bank Center, 6754 Ayala Avenue
Makati City, Metro Manila, Philippines

Opinion

We have audited the consolidated financial statements of Eton Properties Philippines, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

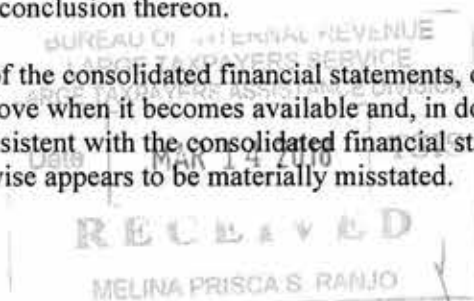
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance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

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2017 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2017, which are expected to be made available to us after that date.

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

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



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

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

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

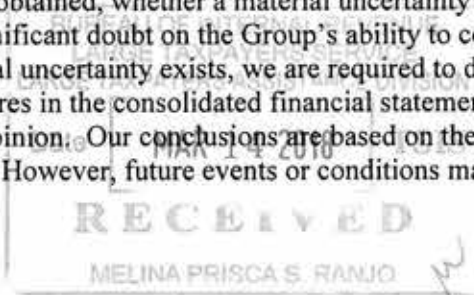
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621267, January 9, 2018, Makati City

March 5, 2018



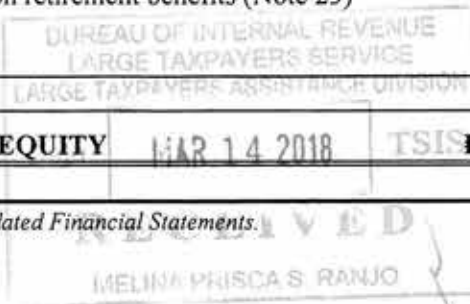
ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 17)	₱1,530,515,081	₱2,272,502,337
Trade and other receivables (Notes 6 and 27)	1,367,123,294	1,963,587,163
Real estate inventories (Note 7)	6,245,233,233	6,552,695,246
Other current assets (Note 8)	2,033,760,048	1,987,297,992
Total Current Assets	11,176,631,656	12,776,082,738
Noncurrent Assets		
Receivables - net of current portion (Note 6)	766,796,299	670,729,438
Investment properties (Note 9)	16,591,639,160	15,466,532,336
Property and equipment (Note 10)	986,614,976	51,116,293
Deferred income tax assets - net (Note 24)	25,923,627	25,235,151
Other noncurrent assets (Note 11)	178,141,010	189,255,771
Total Noncurrent Assets	18,549,115,072	16,402,868,989
TOTAL ASSETS	₱29,725,746,728	₱29,178,951,727
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	₱3,313,187,486	₱3,359,054,122
Payables to related parties (Note 17)	—	66,945,783
Customers' deposits (Note 13)	987,861,644	892,286,404
Current portion of:		
Loans payable (Notes 14 and 17)	384,080,504	466,945,986
Payables to landowners (Notes 15 and 17)	52,692,924	1,762,163,633
Deposits and other current liabilities (Note 16)	154,618,346	187,900,213
Total Current Liabilities	4,892,440,904	6,735,296,141
Noncurrent Liabilities		
Loans payable - net of current portion (Notes 14 and 17)	5,696,065,670	3,604,003,236
Payables to landowners - net of current portion (Notes 15 and 17)	1,884,875,396	2,000,678,035
Other noncurrent liabilities (Notes 16 and 23)	562,279,316	508,869,417
Total Noncurrent Liabilities	8,143,220,382	6,113,550,688
Total Liabilities	13,035,661,286	12,848,846,829
Equity (Note 25)		
Capital stock - ₱1 par value	5,723,017,872	5,723,017,872
Additional paid-in capital	8,206,662,618	8,206,662,618
Accumulated remeasurements on retirement benefits (Note 23)	51,413,648	39,308,980
Retained earnings	2,708,999,259	2,361,123,383
Treasury shares	(7,955)	(7,955)
Total Equity	16,690,085,442	16,330,104,898
TOTAL LIABILITIES AND EQUITY	₱29,725,746,728	₱29,178,951,727

See accompanying Notes to Consolidated Financial Statements.



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Real estate sales	P845,052,331	P1,552,720,657	P1,311,913,267
Rental income (Notes 9 and 27)	1,388,010,270	1,278,447,201	1,172,539,294
Rooms and other operated departments	85,112,175	—	—
	2,318,174,776	2,831,167,858	2,484,452,561
COSTS AND EXPENSES			
Cost of real estate sales (Note 7)	500,135,050	1,089,026,269	952,661,153
Cost of rental income (Notes 9 and 10)	308,447,086	253,830,432	226,887,628
Cost of rooms and other operated departments	50,618,202	—	—
Selling expenses (Note 19)	46,596,858	52,847,543	42,381,793
General and administrative expenses (Note 20)	684,931,311	600,690,178	588,318,105
	1,590,728,507	1,996,394,422	1,810,248,679
OTHER INCOME (CHARGES) - Net			
Finance charges (Note 18)	(355,119,704)	(357,699,806)	(175,786,705)
Interest income (Note 18)	44,556,155	55,871,003	50,830,169
Foreign exchange gains (losses) - net	(148,549)	4,250,839	3,745,550
Other income - net (Note 22)	95,364,084	64,073,508	10,619,858
	(215,348,014)	(233,504,456)	(110,591,128)
INCOME BEFORE INCOME TAX	512,098,255	601,268,980	563,612,754
PROVISION FOR (BENEFIT FROM)			
INCOME TAX (Note 24)			
Current	170,098,570	187,968,833	234,639,520
Deferred	(5,876,191)	23,791,351	15,718,425
	164,222,379	211,760,184	250,357,945
NET INCOME	P347,875,876	P389,508,796	P313,254,809
BASIC/DILUTED EARNINGS			
PER SHARE (Note 26)	P0.0608	P0.0681	P0.0547

See accompanying Notes to Consolidated Financial Statements.



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	P347,875,876	P389,508,796	P313,254,809
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains on defined benefit obligations (Note 23)	17,292,383	16,754,251	13,849,363
Deferred income tax effect	(5,187,715)	(5,026,275)	(4,154,809)
	12,104,668	11,727,976	9,694,554
TOTAL COMPREHENSIVE INCOME	P359,980,544	P401,236,772	P322,949,363

See accompanying Notes to Consolidated Financial Statements.



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Capital stock- P1 par value (Note 25)	Additional Paid-in Capital (Note 25)	Accumulated Remeasurements on Retirement Benefits (Note 23)	Retained Earnings (Note 25)	Treasury Shares (Note 25)	Total
BALANCES AS AT DECEMBER 31, 2014	P2,905,348,700	P3,500,000,000	P17,886,450	P1,658,359,778	(P7,955)	P8,081,586,973
Net income for the year	—	—	—	313,254,809	—	313,254,809
Other comprehensive income	—	—	9,694,554	—	—	9,694,554
Total comprehensive income	—	—	9,694,554	313,254,809	—	322,949,363
Conversion of advances to capital stock	2,067,669,172	3,432,330,828	—	—	—	5,500,000,000
Issuance of capital stock	750,000,000	1,290,000,000	—	—	—	2,040,000,000
Stock issue costs	—	(15,668,210)	—	—	—	(15,668,210)
BALANCES AS AT DECEMBER 31, 2015	5,723,017,872	8,206,662,618	27,581,004	1,971,614,587	(7,955)	15,928,868,126
Net income for the year	—	—	—	389,508,796	—	389,508,796
Other comprehensive income	—	—	11,727,976	—	—	11,727,976
Total comprehensive income	—	—	11,727,976	389,508,796	—	401,236,772
BALANCES AS AT DECEMBER 31, 2016	5,723,017,872	8,206,662,618	39,308,980	2,361,123,383	(7,955)	16,330,104,898
Net income for the year	—	—	—	347,875,876	—	347,875,876
Other comprehensive income	—	—	12,104,668	—	—	12,104,668
Total comprehensive income	—	—	12,104,668	347,875,876	—	359,980,544
BALANCES AS AT DECEMBER 31, 2017	P5,723,017,872	P8,206,662,618	P51,413,648	P2,708,999,259	(P7,955)	P16,690,085,442

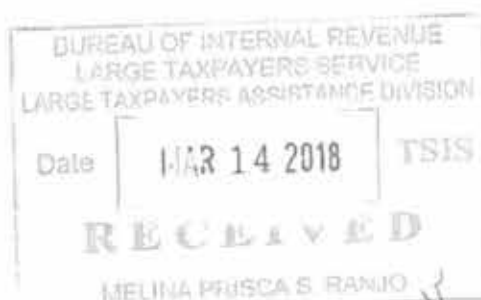
See accompanying Notes to Consolidated Financial Statements.



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱512,098,255	₱601,268,980	₱563,612,754
Adjustments for:			
Depreciation and amortization (Notes 9, 10, 11 and 20)	254,904,052	163,644,403	151,693,041
Loss (gain) on retirement and disposal of property and equipment (Note 10)	(751,467)	165,955	—
Interest income (Notes 6 and 18)	(44,556,155)	(55,871,003)	(50,830,169)
Interest expense (Notes 14 and 18)	354,794,059	356,898,019	145,361,929
Unrealized foreign exchange losses (gains) - net	145,849	4,704,525	(3,686,179)
Retirement benefits cost (Notes 21 and 23)	29,415,972	25,931,585	22,398,566
Operating income before working capital changes	1,106,050,565	1,096,742,464	828,549,942
Decrease (increase) in:			
Trade and other receivables	484,258,398	746,863,419	1,159,155,951
Real estate inventories	(229,211,670)	(744,545,127)	(2,172,338,728)
Other assets	27,777,471	(635,722,889)	(29,664,762)
Increase (decrease) in:			
Trade and other payables	(50,955,518)	(142,244,837)	944,564,162
Payables to related parties	(66,945,783)	(4,455,717)	(403,060,684)
Customers' deposits	95,575,240	(534,362,633)	(590,748,732)
Deposits and other liabilities	8,004,443	45,561,181	165,956,557
Cash generated from (used in) operations	1,374,553,146	(172,164,139)	(97,586,294)
Interest paid	(419,251,267)	(369,794,968)	(141,457,016)
Interest received	60,694,765	77,997,497	50,076,424
Income taxes paid, including final tax and creditable withholding taxes	(241,778,265)	(232,223,435)	(91,812,802)
Net cash from (used in) operating activities	774,218,379	(696,185,045)	(280,779,688)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investment properties (Notes 9 and 33)	(1,668,306,158)	(1,077,970,811)	(382,712,615)
Property and equipment (Notes 10 and 33)	(28,785,245)	(29,264,974)	(31,551,676)
Software (Note 11)	(1,585,550)	(8,743,189)	(8,484,029)
Proceeds from disposal of property and equipment	928,750	—	—
Net cash used in investing activities	(1,697,748,203)	(1,115,978,974)	(422,748,320)

(Forward)



	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of loans (Note 14)	₱2,490,000,000	₱3,500,000,000	₱-
Issuance of capital stock	-	-	2,040,000,000
Payments of:			
Payable to landowners (Notes 15 and 33)	(1,825,273,348)	(875,695,892)	(556,785,000)
Loans payable (Notes 14 and 33)	(470,588,235)	(610,584,900)	(633,918,935)
Stock and debt issue costs (Notes 15 and 17)	(12,450,000)	(17,500,000)	(15,668,210)
Net cash from financing activities	181,688,417	1,996,219,208	833,627,855
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(145,849)	(4,704,525)	3,686,179
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(741,987,256)	179,350,664	133,786,026
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,272,502,337	2,093,151,673	1,959,365,647
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 5 and 33)	₱1,530,515,081	₱2,272,502,337	₱2,093,151,673

See accompanying Notes to Consolidated Financial Statements.



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of the Consolidated Financial Statements

Corporate Information

Eton Properties Philippines, Inc. ("Eton" or "the Parent Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 2, 1971 under the name "Balabac Oil Exploration & Drilling Co., Inc." to engage in oil exploration and mineral development projects in the Philippines. On May 12, 1988, the Philippine SEC approved the Parent Company's registration and licensing as a listed company.

On August 19, 1996, the Parent Company's Articles of Incorporation (the Articles) was amended to: (a) change the Parent Company's primary purpose from oil exploration and mineral development to that of engaging in the business of a holding company; and (b) include real estate development and oil exploration as among its secondary purposes.

On February 21, 2007, the Parent Company's Board of Directors (BOD) adopted the following amendments: (a) change the corporate name to Eton Properties Philippines, Inc.; (b) change the primary purpose to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, residential, including, but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property, improved or unimproved; to acquire, purchase, hold, manage, develop and sell subdivision lots; to erect, construct, alter, manage, operate, lease buildings and tenements; and to engage or act as real estate broker; (c) increase the number of directors from 11 to 15; and, (d) change of financial year-end from April 30 to December 31.

The above amendments were adopted by the Parent Company's shareholders on April 19, 2007 and approved by the Philippine SEC on June 8, 2007.

On October 6, 2009, the Parent Company's BOD approved the acquisition of an approximately 12-hectare property, with an appraised value of ₱3,953.2 million, owned by Paramount Landequities, Inc. (Paramount), where the Eton Centris projects are situated in exchange for the issuance of 1.6 billion shares to Paramount at ₱2.50 per share. On October 22, 2009, the Parent Company and Paramount executed a Deed of Conveyance pertaining to the asset-for-share swap (see Note 25). As approved by the Philippine SEC in July 2011, the property was recognized by the Parent Company at the value of ₱4.0 billion (see Notes 7 and 25).

Prior to restructuring in 2012, Paramount and Saturn Holdings, Inc. (Saturn) had ownership interest of 55.07% and 42.39%, respectively, in Eton.

On September 17, 2012, LT Group, Inc. (LTG)'s BOD approved the assumption by LTG of certain liabilities of Paramount from Step Dragon Co. Ltd. and Billinge Investments Ltd., British Virgin Island (BVI)-based companies, and Saturn from Penick Group Ltd., also a BVI-based company, amounting to ₱1,350.8 million and ₱521.3 million, respectively. LTG is a publicly listed company incorporated and domiciled in the Philippines.

On September 25 and September 26, 2012, LTG subscribed to 1,350,819,487 common shares of Paramount and 490,000,000 common shares of Saturn, respectively, with a par value of ₱1.00 per share, which were issued to LTG from the increase in Paramount's and Saturn's authorized capital stock. LTG paid for the subscription in full by way of conversion into equity of LTG's advances to Paramount and Saturn amounting to ₱1,350.8 million and ₱490.0 million, respectively. On the same dates, Paramount and Saturn filed their application for increase in authorized capital with the Philippine SEC in order to accommodate LTG's investment.

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MELINA PINOSA S. RANJO



Upon Philippine SEC's approval on October 10, 2012, Paramount and Saturn became subsidiaries of LTG with 98.18% and 98.99% ownership interests, respectively, thus, giving LTG a 98.00% effective ownership in Eton.

On October 30, 2012, LTG entered into deeds of sale of shares with the controlling shareholders of Paramount and Saturn for the remaining issued and outstanding shares of the said companies. Thus, Paramount and Saturn became wholly owned subsidiaries of LTG.

On October 22, 2012, the Parent Company's BOD approved to voluntarily delist the Parent Company from the Philippine Stock Exchange (PSE) in light of the Parent Company's inability to comply with the minimum public ownership requirement of PSE within the allowed grace period. On December 8, 2012, Paramount made a tender offer to buy back shares of the Parent Company traded in the PSE resulting in the increase in its ownership interest from 55.07% to 56.86%, thus, increasing LTG's effective ownership interest in Eton to 99.30%. The delisting of the Parent Company became effective on January 2, 2013.

On November 14, 2014, Paramount and Saturn authorized the conversion of its advances to the Parent Company amounting to ₱3,150.0 million and ₱2,350.0 million, respectively, into equity by way of subscription to 2,067,669,172 shares of stock at an issue price of ₱2.66 per share. On January 14, 2015, the Parent Company filed the application for conversion with the SEC which was subsequently approved on January 23, 2015.

On March 2, 2015, the Parent Company's BOD approved the increase of its authorized capital stock from ₱5.0 billion divided into 5.0 billion common shares with a par value of ₱1.00 per share to ₱8.0 billion divided into 8.0 billion common shares with a par value of ₱1.00 per share. On September 28, 2015, Eton filed an application with the Philippine SEC to increase its authorized capital stock which was subsequently approved by the Philippine SEC on September 30, 2015. Out of the increase of 3.0 billion common shares, 419 million common shares and 331 million common shares have been subscribed by Paramount and Saturn, respectively, at a subscription price of ₱2.72 per share.

As of December 31, 2017 and 2016, Eton is 56.88% owned by Paramount. Eton's ultimate parent company is Tangent Holdings Corporation, a company incorporated and domiciled in the Philippines.

The Parent Company's registered business address is 8/F Allied Bank Center, 6754 Ayala Avenue, Makati City, Metro Manila, Philippines.

Subsidiaries

Below are the Parent Company's ownership interests in its subsidiaries:

Subsidiaries	Percentage of Ownership
Belton Communities, Inc. (BCI)	100%
Eton City, Inc. (ECI)	100%
FirstHomes, Inc. (FHI)	100%
Eton Properties Management Corporation (EPMC)	100%

BCI was incorporated and registered with the Philippine SEC on November 5, 2007. On February 18, 2008, the BOD of BCI approved the increase of its capital stock from 20,000 shares to 100,000,000 shares at ₱1.00 par value per share and the subscription of the Parent Company for 24,995,000 shares, which, in addition to 5,000 common shares originally subscribed, would equal to 25% of the authorized capital stock.



On October 15, 2014, the BOD of BCI approved the increase of its authorized capital stock from ₱20,000 divided into 20,000 common shares with a par value of ₱1.00 per share to ₱800,000,000 divided into 800,000,000 common shares with a par value of ₱1.00 per share. On December 23, 2014, BCI filed an application with the Philippine SEC to increase its authorized capital stock which was subsequently approved by the Philippine SEC on January 7, 2015. Out of the increase in authorized capital stock, 199.995 million common shares have been subscribed by the Parent Company with deposit for future stock subscription as payment for the subscribed common shares.

ECI was incorporated and registered with the Philippine SEC on October 8, 2008. On October 15, 2014, the BOD of ECI approved the increase of its authorized capital stock from ₱100,000,000 divided into 100,000,000 common shares with a par value of ₱1.00 per share to ₱1,000,000,000 divided into 1,000,000,000 common shares with a par value of ₱1.00 per share. On December 23, 2014, ECI filed an application with the Philippine SEC to increase its authorized capital stock which was subsequently approved by the Philippine SEC on January 6, 2015. Out of the increase in authorized capital stock, 225.0 million common shares have been subscribed by the Parent Company with deposit for future stock subscription as payment for the subscribed common shares.

On October 15, 2010, FHI was incorporated and registered with the Philippine SEC as a wholly owned subsidiary of the Parent Company with a total subscribed capital stock of ₱1.3 million.

EPMC was incorporated and registered with the Philippine SEC on September 29, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, house, apartments and other structures.

On June 14, 2017, the BOD of EPMC approved the increase in its authorized capital stock from ₱1,000,000 divided into 1,000,000 common shares with a par value of ₱1.00 per share to ₱20,000,000 divided into 20,000,000 common shares with a par value of ₱1.00 per share. The increase in authorized capital stock was approved by the Philippine SEC on September 19, 2017. Out of the increase in authorized capital stock, 4.75 million common shares have been subscribed by the Parent Company.

All subsidiaries, except for EPMC, are engaged in real estate development. All subsidiaries' registered business address is 8/F Allied Bank Center, 6754 Ayala Avenue, Makati City, Metro Manila.

Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements of Eton Properties Philippines, Inc. and its subsidiaries (the "Group") as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issuance by the BOD on March 5, 2018.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

The consolidated financial statements have been prepared under the historical cost basis and are presented in Philippine peso (Peso), which is the Parent Company's functional and presentation currency. All values are rounded to the nearest Peso, except when otherwise indicated.

The consolidated financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) as issued by the Financial Reporting Standards Council (FRSC). PFRSs include statements named PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by FRSC.



Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017. The financial statements of the subsidiaries are prepared for the same financial reporting year as the Parent Company, using consistent accounting policies.

A subsidiary is an entity over which the Parent Company has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect that return through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and,
- the Group's voting rights and potential voting rights.

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments, where necessary, are made to ensure consistency with the policies adopted by the Group.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but are considered as an impairment indicator of the assets transferred.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new pronouncements starting January 1, 2017. Unless otherwise indicated, the adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.



- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 33 to the consolidated financial statements.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Future Changes in Accounting Policies

The following are the new and revised standards and interpretations that will become effective subsequent to December 31, 2017. Unless otherwise indicated, the Group does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have any significant impact on the financial statements.

Effective beginning on or after January 1, 2018

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

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The amendments are not applicable to the Group since none of the entities within the Group have share-based payment transactions.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group is currently assessing the impact of PFRS 9 and plans to adopt the new standard on the mandatory effective date.



- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is 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. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

Based on management's initial assessment, the requirements of PFRS 15 on the following may have a significant impact on the Group's consolidated financial position, performance and disclosures:

- identification of contract with customers;
- existence of significant financing component in relation to advance payments received from customers; and
- capitalization of incremental costs to obtain the contract.

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets, when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify



that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

These amendments are not expected to have any significant impact on the consolidated financial statements.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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 these amendments.

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

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 nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The adoption of interpretation is not expected to have any significant impact on the consolidated financial statements.

Effective beginning on or after January 1, 2019

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

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

These amendments are not expected to have any significant impact on the consolidated financial statements.



- 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. Early application is permitted, but not before an entity applies PFRS 15. 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 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

These amendments are not expected to have any significant impact on the Group's financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances



An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

These amendments are not expected to have any significant impact on the consolidated financial statements.

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2017 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liability and the level of the fair value hierarchy.

Current versus Non-Current Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 months after the reporting period, or;
- 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 non-current.

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 non-current.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value and are acquired three months or less before their maturity.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.



Initial recognition and classification of financial instruments

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments includes transaction cost, except for those designated at fair value through profit or loss (FVPL).

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability 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.

As of December 31, 2017 and 2016, the Group's financial assets and financial liabilities consist of loans and receivables, and other financial liabilities.

"Day 1" difference

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in consolidated statement of income, unless it qualifies for recognition as some other type of assets. In cases where the data to be used is not observable, the difference between the transaction price and model value is only recognized in consolidated statement of 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2017 and 2016, the Group's loans and receivables include cash in banks and cash equivalents, trade and other receivables and refundable deposits.

Other financial liabilities

Other financial liabilities are initially recorded at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.



As of December 31, 2017 and 2016, the Group's other financial liabilities include trade and other payables (except those non-contractual liabilities and liabilities to government agencies), payables to related parties, loans payable, payables to landowners and security deposits.

Impairment of Financial Assets

The Group assesses at each financial reporting date whether there is 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 have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) 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 contracted parties or a group of contracted parties are/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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.



Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

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 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 the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

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 consolidated statement of income.

Real Estate Inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV).

Cost includes:

- land cost;
- amounts paid to contractors for construction; and
- borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated cost to sell.

Advances to Contractors

Advances to contractors pertain to advance payments made to contractors at the start of each contract packages. These are recouped every progress billing payment based on the percentage of accomplishment of each contract package.



Creditable Withholding Taxes (CWT)

CWTs are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source, subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within 12 months are classified as current assets. Otherwise, these are classified as other noncurrent asset. CWTs are classified in the "Other current assets" account in the consolidated statement of financial position.

Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable:

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and are not occupied by the Group.

Investment properties, except for land, are carried at cost less accumulated depreciation and any impairment in value. Land is carried at acquisition cost less any impairment in value. The cost of an investment property, except for land, includes its construction costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs. Additions, betterments and major replacements are capitalized while minor repairs and maintenance are charged to expense as incurred.

Construction in progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant asset is completed or put into operational use.

Depreciation of investment properties commences once these are available for use and is computed on a straight-line basis over the estimated useful lives of the investment properties as follows:

	Years
Buildings	20 to 40
Condominium units	40
Model unit	5
Land improvements	5

Depreciation of investment properties ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The useful lives and depreciation method are reviewed annually based on expected asset utilization to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the investment properties.

Transfers to investment property are made when there is a change in use, as evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when and only when there is a change in use, as evidenced by commencement of owner-occupation or commencement of development with a view to sell.



Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

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

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. The cost of property and equipment comprised construction cost, including borrowing costs, or purchase price plus any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Construction in progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment is available for use and is computed on a straight-line basis over their estimated useful lives as follows:

	Years
Serviced apartments:	
Condominium units	40
Furniture, fixtures and equipment	3 to 15
Transportation equipment	5
Furniture, fixtures and equipment	3 to 10
Leasehold improvements	5 or term of the lease, whichever is shorter

Depreciation and amortization ceases at the earlier of the date that the item is classified as held for sale or included in a disposal group that is classified as held for sale in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

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

When a property and equipment is retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from consolidated statement of financial position and any resulting gain or loss is recognized in consolidated statement of income.

Software

Software, which is included under "Other noncurrent assets" in the consolidated statement of financial position, is measured at cost on initial recognition. Subsequently, software is carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method over the software's estimated useful life of five years.



Impairment of Noncurrent Nonfinancial Assets

The Group assesses at each financial reporting date whether there is an indication that its noncurrent nonfinancial assets, which include investment properties, property and equipment, and software, may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in consolidated statement of income.

An assessment is made at each financial reporting date as to whether there is an 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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statement of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Security Deposits

Security deposits, included in "Deposits and other current liabilities" and "Other noncurrent liabilities" in the consolidated statement of financial position, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

Capital Stock and Additional Paid-In Capital

Capital stock is measured at par value for all shares subscribed and/or issued. Subscribed capital stock is the portion of the authorized capital stock that has been subscribed but not yet fully paid and therefore still unissued. The subscribed capital stock is reported net of the subscription receivable.

When the shares are subscribed or sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the liability settled or fair value of the shares issued or, whichever is more reliably determinable. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees and taxes are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against the retained earnings.

Treasury Shares

Treasury shares are carried at cost and are presented as deduction from equity. No gain or loss is recognized in consolidated statement of income on the purchase, sale, reissuance or cancellation of treasury shares. Any difference between the carrying amount and the consideration on the reissuance of treasury shares is recognized as additional paid-in capital.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit". A deficit is not an asset but a deduction from equity.



Appropriated retained earnings represent that portion which has been restricted, and therefore, not available for dividend declaration. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Real estate sales

The Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectability is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. The Group starts recognizing income under percentage-of-completion when the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group's consolidated statement of financial position as part of real estate inventories and the deposit as part of "Customers' deposits" account.

Cost of real estate sales

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of real estate sales recognized in the consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage-of-completion used for revenue recognition purposes.

Rental income

Rental income under non-cancellable leases of investment properties is recognized in consolidated statement of income on a straight-line basis over the lease term or based on the terms of the lease contract or certain percentage of the gross revenue of the tenants, as applicable.

Charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants recorded as "Rental dues" in "Other income" account is recognized in the period in which the compensation becomes receivable.



Cost of rental income

Cost of rental income is recognized in relation to the leasing activities of the Group. This includes depreciation of the investment properties being leased out, rental expense on the land where the property for lease is located, real property taxes and other directly attributable costs.

Rooms and other operated departments

Revenue from room rentals and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center related services and car rentals, food packages, laundry service, telephone service, and spa/gym services.

Costs of services

Costs of services include expenses incurred by the Company for the generation of revenue from room rentals and other ancillary services. Costs of services are expensed as incurred.

Interest income

Interest income is recognized as it accrues.

Other income and other expenses

Other income and other expenses pertain to the gain or loss, respectively, arising from forfeiture or cancellation of prior years' real estate sales, and marketing fees.

Expense Recognition

Expenses are recognized when there is a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Selling and general and administrative expenses

Selling expenses are costs incurred to sell real estate inventories of the Group, which includes commissions, advertising and promotions, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Commissions

Commission paid to sales marketing agents on the sale of real estate units are nonrefundable and are expensed as incurred.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of development costs (included in "Real estate inventories" or "Investment properties" accounts in the consolidated statement of financial position). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Capitalized borrowing cost is based on applicable weighted average borrowing rate for those coming from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically.

All other borrowing costs are recognized as an expense in the period in which they are incurred.

Retirement Benefits Cost

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.



The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement benefits costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and
- remeasurements of net defined benefit liability or asset.
-

Service costs which include current service costs, past service costs and gains or losses on nonroutine settlements are recognized as expense in consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursements is virtually certain.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the financial reporting date.

Deferred income tax

Deferred income tax is determined at the financial reporting date using the balance sheet liability method on all temporary differences 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, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) [excess MCIT] and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, excess MCIT and unused NOLCO can be utilized before their expiration.

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



Deferred income tax assets and liabilities are measured at the tax rate that is 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 financial reporting date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged or credited to the income for the period.

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Other Comprehensive Income

Other comprehensive income comprises items of income and expense that are not recognized in the consolidated statement of income for the year in accordance with PFRSs.

Basic/Diluted Earnings Per Share

Basic earnings per share is computed by dividing net income for the year attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, after giving retroactive effect to any stock dividends or stock splits, if any, declared during the year.

Diluted earnings per share is computed in the same manner, with the net income for the year attributable to equity holders of the Parent Company and the weighted average number of common shares outstanding during the year, adjusted for the effect of all dilutive potential common shares.

Foreign Currency-Denominated Transactions and Translations

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the exchange rate at the financial reporting date. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the consolidated statement of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the consolidated statement of income, any exchange component of that gain or loss shall be recognized in the consolidated statement of income.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one 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 that 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 a substantial change to the asset.



Where a 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).

The Group as lessor

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in the consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as "Deferred rental income" in the consolidated statement of financial position. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under "Other income" account in the consolidated statement of income.

The Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for non-cancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and 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 expected future cash flows at a pre-tax rate that reflects current market assessments 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 interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed 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 when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Events After the Financial Reporting Date

Events after the financial reporting date that provide additional information about the Group's position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.



3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effect of any change in accounting estimates is reflected in the consolidated financial statements as they become reasonably determinable.

Revenue recognition

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2017, 2016 and 2015.

Classification of financial instruments

The Group classifies a financial instrument or its component on initial recognition and re-evaluates this designation at every financial reporting date as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position (see Note 28).

Operating lease commitments - the Group as lessor

The Group has entered into commercial property leases of its investment properties. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases. Rental income recognized by the Group amounted to ₱1,388.0 million, ₱1,278.4 million and ₱1,172.5 million in 2017, 2016 and 2015, respectively (see Notes 9 and 27).

Operating lease commitments - the Group as lessee

Currently, the Group has land lease agreements with several non-related parties and office lease agreement with a related party. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessors. Thus, the Group considers these lease agreements as operating leases. Rental expense included in "Outside services" under "General and administrative expenses" in the consolidated statements of income amounted to ₱17.4 million, ₱11.7 million and ₱11.7 million in 2017, 2016 and 2015, respectively (see Notes 20 and 27). Additional rental expense amounting to ₱39.4 million, ₱39.4 million and ₱39.3 million recognized in 2017, 2016 and 2015, respectively, included under "Cost of rental income" account in the consolidated statements of income, relates to the lease of a parcel of land where one of the Parent Company's projects is located.



In determining whether a lease contract is cancellable or not, either acting as a lessor or a lessee, the Group considered, among others, the probability of the cancellation and the significance of the penalty, including economic consequences, to the Group.

Classification of properties

The Group determines whether a property is classified as investment property or real estate inventory as follows:

- Investment property comprises land, condominium units and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.
- Real estate inventory comprises property that is held for sale in the ordinary course of business. Principally, this is a residential property that the Group develops and intends to sell before or on completion of construction.

The carrying values of the Group's investment properties and real estate inventories amounted to ₱16,591.6 million and ₱6,245.2 million as of December 31, 2017 and ₱15,466.5 million and ₱6,552.7 million as of December 31, 2016, respectively (see Notes 7 and 9).

Distinction between investment properties and owner-occupied properties

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

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

The carrying values of the Group's investment properties and property and equipment amounted to ₱16,591.6 million and ₱986.6 million as of December 31, 2017 and ₱15,466.5 million and ₱51.1 million as of December 31, 2016, respectively (see Notes 9 and 10).

Determination of fair value of financial and nonfinancial instruments

Where the fair values of financial and nonfinancial instruments recorded or disclosed in the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values (see Note 28).

Provisions and contingencies

The Group is currently involved in legal proceedings. Management and its legal counsels believe that the Group has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal actions, if any, will not have a material adverse impact on the Group's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of strategies relating to these proceedings. The Group did not recognize any provision in 2017, 2016 and 2015.



Accounting Estimates and Assumptions

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

Revenue and cost recognition

The Group's revenue and cost recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from and cost of real estate sales is recognized based on the percentage-of-completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Real estate sales and cost of real estate sales amounted to ₱845.1 million and ₱500.1 million in 2017, ₱1,552.7 million and ₱1,089.0 in 2016 and ₱1,311.9 million and ₱952.7 million in 2015, respectively.

Estimation of allowance for impairment of loans and receivables

The level of allowance for loans and receivables is evaluated by management based on past collection history and other factors which include, but are not limited to the length of the Group's relationship with the customer, the customer's payment behavior and known market factors that affect the collectability of the accounts. As of December 31, 2017 and 2016, the Group did not recognize any allowance for impairment on its loans and receivables (see Note 28).

Measurement of net realizable value of real estate inventories

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

As of December 31, 2017 and 2016, real estate inventories, which are carried at cost, amounted to ₱6,245.2 million and ₱6,552.7 million, respectively (see Note 7).

Estimation of useful lives of investment properties, and property and equipment excluding land and construction in progress, and software

The Group estimates the useful lives of its investment properties, property and equipment and software based on the period over which the assets are expected to be available for use. The estimated useful lives of the investment properties, property and equipment and software are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of investment properties, property and equipment and software would increase depreciation and amortization expense and decrease noncurrent assets.

There were no changes in the estimated useful lives of depreciable investment properties, property and equipment and software in 2017 and 2016. The carrying values of the Group's investment properties (excluding land and construction in progress), property and equipment and software amounted to ₱5,651.4 million, ₱986.6 million and ₱12.4 million, respectively, as of December 31, 2017 and ₱5,444.1 million, ₱51.1 million and ₱21.0 million, respectively, as of December 31, 2016 (see Notes 9, 10 and 11).



Assessment of impairment of noncurrent nonfinancial assets and estimation of recoverable amount

The Group evaluates its nonfinancial assets, which include investment properties, property and equipment, and software, for any impairment in value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the asset's fair value less costs to sell and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

The Group did not identify any indications of impairment, thus, it believes that the carrying amounts of its investment properties, property and equipment, and software amounting to P16,591.6 million, P986.6 million and P12.4 million, respectively, as of December 31, 2017 and P15,466.5 million, P51.1 million and P20.9 million, respectively, as of December 31, 2016 approximate their recoverable amounts (see Notes 9, 10 and 11).

Estimation of retirement benefits costs and liability

The determination of the Group's retirement benefits costs and liability is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include among others, discount rate and salary increase rate. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions will materially affect retirement benefits obligations.

As of December 31, 2017 and 2016, retirement benefits liability amounted to P68.2 million and P56.1 million, respectively. Retirement benefits cost amounted to P29.4 million, P25.9 million and P22.4 million in 2017, 2016 and 2015, respectively (see Note 23).

Recognition of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each financial reporting date and makes adjustments to it to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group looks at its projected financial performance in assessing the sufficiency of future taxable income.

As of December 31, 2017 and 2016, the Group recognized deferred income tax assets amounting to P146.4 million and P127.9 million, respectively (see Note 24).

4. Segment Information

Operating segments are components of the Group: (a) that engage in business activities from which the Group may earn revenues and incur losses and expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available. The Group's CODM is the Parent Company's BOD. The Parent Company's BOD regularly reviews the operating results of the business units to make decisions on resource allocation and assess performance. Segment revenues and segment expenses are measured in accordance with PFRSs.

The presentation and classification of segment revenues and segment expenses are consistent with those in the consolidated statements of income. Financing costs (including interest expense) and income taxes are managed on a per company basis and are not allocated to operating segments.



Further, the measurement of the segment assets are the same as those described in the summary of significant accounting and financial reporting policies.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives all of its revenue from domestic operations. Thus, geographical business information is not required.

Revenue is recognized to the extent that it is probable that those economic benefits will flow to the Group and that the revenue can be reliably measured. The Group does not have revenue from transaction with a single external customer, which amount to 10% or more of the Group's revenues.

Segment expenses are those directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses such as direct costs and expenses and general and administrative expenses.

The business segments where the Group operates follow:

- Residential developments - sale of residential lots and condominium units; and,
- Leasing activities - development of Business Process Outsourcing (BPO) buildings, and commercial spaces and condominium units for lease.
- Serviced apartments - operations of rooms and other operated departments at "The Mini Suites" in Eton Tower Makati

Considering the nature of the business segments, there were no intersegment revenues generated for all years.

2017

	Residential Developments	Leasing Activities	Serviced Apartments	Unallocated Corporate Balance	Consolidated
Revenue from external customers	₱845,052,331	₱1,388,010,270	₱85,112,175	₱-	₱2,318,174,776
Direct costs	(500,135,050)	(308,447,086)	(50,618,202)	-	(859,200,338)
Gross profit	344,917,281	1,079,563,184	34,493,973	-	1,458,974,438
Selling, general and administrative expenses	(35,363,699)	-	-	(696,164,470)	(731,528,169)
Operating income	309,553,582	1,079,563,184	34,493,973	(696,164,470)	727,446,269
Interest income	16,472,876	-	-	28,083,279	44,556,155
Other income (charges) - net	(93,177,383)	150,616,283	4,019,201	33,757,434	95,215,535
Finance charges	-	-	-	(355,119,704)	(355,119,704)
Provision for income tax	-	-	-	(164,222,379)	(164,222,379)
Segment profit	₱232,849,075	₱1,230,179,467	₱38,513,174	(₱1,153,665,840)	₱347,875,876
Other information					
Segment assets	₱9,394,874,795	₱8,941,166,326	₱1,018,040,136	₱10,345,741,844	₱29,699,823,101
Deferred income tax assets - net	-	-	-	25,923,627	25,923,627
Total segment assets	₱9,394,874,795	₱8,941,166,326	₱1,018,040,136	₱10,371,665,471	₱29,725,746,728
Segment liabilities	₱2,316,179,530	₱2,576,772,823	₱3,640,982	₱8,139,067,951	₱13,035,661,286
Segment additions to property and equipment, investment properties and software (Note 33)					
	₱30,330,976	₱1,740,087,435	₱-	₱-	₱1,770,418,411
Depreciation and amortization	35,808,395	177,940,920	41,114,917	-	254,904,052



2016

	Residential Developments	Leasing Activities	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P1,552,720,657	P1,278,447,201	P-	P2,831,167,858
Direct costs	(1,089,026,269)	(253,830,432)	-	(1,342,856,701)
Gross profit	463,694,388	1,024,616,769	-	1,488,311,157
Selling, general and administrative expenses	(40,182,898)	-	(613,354,823)	(653,537,721)
Operating income	423,511,490	1,024,616,769	(613,354,823)	834,773,436
Interest income	41,673,403	-	14,197,600	55,871,003
Other income (charges) - net	(177,246,320)	169,684,010	75,886,657	68,324,347
Finance charges	-	-	(357,699,806)	(357,699,806)
Provision for income tax	-	-	(211,760,184)	(211,760,184)
Segment profit	P287,938,573	P1,194,300,779	(P1,092,730,556)	P389,508,796
Other information				
Segment assets	P9,884,904,852	P4,147,394,409	P15,121,417,315	P29,153,716,576
Deferred income tax assets - net	-	-	25,235,151	25,235,151
Total segment assets	P9,884,904,852	P4,147,394,409	P15,146,652,466	P29,178,951,727
Segment liabilities	P2,121,650,583	P785,123,915	P9,942,072,331	P12,848,846,829
Segment additions to property and equipment, investment properties and software (Note 33)	P38,008,163	P2,407,970,812	P-	P2,445,978,975
Depreciation and amortization	29,464,095	134,180,308	-	163,644,403

2015

	Residential Developments	Leasing Activities	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P1,311,913,267	P1,172,539,294	P-	P2,484,452,561
Direct costs	(952,661,153)	(226,887,628)	-	(1,179,548,781)
Gross profit	359,252,114	945,651,666	-	1,304,903,780
Selling, general and administrative expenses	(22,730,412)	-	(607,969,486)	(630,699,898)
Operating income	336,521,702	945,651,666	(607,969,486)	674,203,882
Interest income	34,618,423	-	16,211,746	50,830,169
Other income (charges) - net	(202,813,489)	197,746,518	19,432,379	14,365,408
Finance charges	-	-	(175,786,705)	(175,786,705)
Provision for income tax	-	-	(250,357,945)	(250,357,945)
Segment profit	P168,326,636	P1,143,398,184	(P998,470,011)	P313,254,809
Other information				
Segment assets	P11,763,578,537	P10,862,943,950	P3,416,606,106	P26,043,128,593
Deferred income tax assets - net	-	-	54,052,774	54,052,774
Total segment assets	P11,763,578,537	P10,862,943,950	P3,470,658,880	P26,097,181,367
Segment liabilities	P4,231,119,056	P698,803,665	P5,238,390,520	P10,168,313,241
Segment additions to property and equipment, investment properties and software (Note 33)	P40,035,705	P1,446,059,317	P-	P1,486,095,022
Depreciation and amortization	23,268,315	128,424,726	-	151,693,041



5. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	₱657,029,484	₱1,081,994,958
Cash equivalents	873,485,597	1,190,507,379
	₱1,530,515,081	₱2,272,502,337

Cash in banks earn interest at the prevailing bank deposit rates (see Note 17). Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates ranging from 0.25% to 2.50% in 2017 and 2016.

Interest income from cash and cash equivalents amounted to ₱28.1 million, ₱14.2 million and ₱16.2 million in 2017, 2016 and 2015, respectively (see Note 18).

6. Trade and Other Receivables

	2017	2016
Contracts receivables	₱1,460,833,618	₱2,067,895,683
Receivables from buyers	312,963,592	326,592,413
Lease receivables (Note 27)	27,759,771	28,940,739
Receivables from tenants	32,660,091	24,969,210
Others	299,702,521	185,918,556
	2,133,919,593	2,634,316,601
Less noncurrent portion of contracts receivables	766,796,299	670,729,438
	₱1,367,123,294	₱1,963,587,163

- a. Contracts receivables consist of revenues recognized to date based on the percentage-of-completion less collections received from the respective buyers.

Interest from contracts receivables amounted to ₱16.4 million, ₱41.7 million and ₱34.6 million in 2017, 2016 and 2015, respectively (see Note 18).

- b. Receivables from buyers include receivables relating to registration of titles and turnover fees whereas receivables from tenants represent charges to tenants for utilities normally collectible within a year.
- c. Other receivables include accrued interest receivable pertaining to interest earned from cash and cash equivalents and contracts receivables. Included also in other receivables are the advances to officers and employees which pertain to unliquidated cash advances that are due within one year. Unliquidated cash advances to officers and employees are recoverable through salary deduction.

7. Real Estate Inventories

	2017	2016
Condominium and residential units	₱686,028,271	₱775,371,530
Land held for development	1,099,584,233	1,313,136,812
Subdivision projects under development	4,459,620,729	4,464,186,904
	₱6,245,233,233	₱6,552,695,246



- a. A summary of the movements in real estate inventories is set out below:

	2017	2016
Beginning of year	P6,552,695,246	P8,357,108,226
Development costs incurred (Notes 15 and 17)	729,346,720	1,833,571,396
Transfer to investment properties (Note 9)	(536,673,683)	(2,548,958,107)
Disposals recognized as cost of sales	(500,135,050)	(1,089,026,269)
End of year	P6,245,233,233	P6,552,695,246

In 2009, the Group acquired parcels of land through an asset-for-share swap agreement. The land, with a total appraised value of P3,953.2 million, was transferred to the Group in exchange for the issuance of 1.6 billion common shares (see Note 25). A portion of the land where the Group's buildings held for lease is situated, with an allocated cost of P658.9 million, was recognized as investment property in 2009. The remaining portion of the land, with an allocated cost of P3,294.3 million, was considered as real estate inventory. In 2010, the Group reclassified a portion of the land, which was previously recognized as real estate inventory as of December 31, 2009 with cost amounting to P2,187.4 million, to investment property in view of management's plan to develop thereon additional buildings to be held for lease (see Note 9). On July 21, 2011, the Philippine SEC approved the valuation of the land acquired through the asset-for-share swap agreement at P4.0 billion, thereby, resulting to an increase in the recorded value of the land by P46.8 million.

- b. Real estate inventories recognized as part of cost of real estate sales amounted to P500.1 million, P1,089.0 million and P952.7 million in 2017, 2016 and 2015, respectively.

8. Other Current Assets

	2017	2016
Advances to contractors (Note 17)	P730,061,592	P903,015,364
Input VAT	945,558,318	793,692,150
Deferred rent asset (Note 27)	184,628,373	180,566,203
Creditable withholding taxes	165,221,663	93,758,466
Prepayments	8,290,102	16,265,809
	P2,033,760,048	P1,987,297,992

- a. Advances to contractors are recouped every settlement of progress billings based on percentage of accomplishment of each contract package. The activities related to these advances will be completed within the Group's normal operating cycle.
- b. Prepayments consist of prepaid insurance, taxes and licenses and other prepaid expenses. Prepaid taxes and licenses consist of unamortized portion of taxes and licenses such as business permit and real estate taxes.



9. Investment Properties

As of December 31, 2017:

	Land	Land Improvements and Buildings	Condominium Units	Construction in Progress	Total
Cost					
Beginning of year	₱7,715,187,455	₱5,476,623,867	₱664,719,414	₱2,307,283,194	₱16,163,813,930
Additions	200,000	88,051,648	–	1,651,835,787	1,740,087,435
Reclassification	–	169,437,134	192,365,641	(361,802,775)	–
Transfer from (to) real estate inventories (Note 7)	494,166,835	19,307,462	(83,849,312)	107,048,698	536,673,683
Transfer to property and equipment (Note 10)	–	–	–	(973,713,374)	(973,713,374)
End of year	8,209,554,290	5,753,420,111	773,235,743	2,730,651,530	17,466,861,674
Accumulated Depreciation					
Beginning of year	–	689,661,594	7,620,000	–	697,281,594
Depreciation for the year (Note 20)	–	155,699,109	22,241,811	–	177,940,920
End of year	–	845,360,703	29,861,811	–	875,222,514
Net Book Values	₱8,209,554,290	₱4,908,059,408	₱743,373,932	₱2,730,651,530	₱16,591,639,160

As of December 31, 2016:

	Land	Land Improvements and Buildings	Condominium Units	Construction in Progress	Total
Cost					
Beginning of year	₱5,714,333,156	₱5,196,974,041	₱7,620,000	₱287,957,814	₱11,206,885,011
Additions	1,903,416,662	31,346,498	–	473,207,652	2,407,970,812
Transfer from real estate inventories (Note 7)	97,437,637	35,428,663	657,099,414	1,758,992,393	2,548,958,107
Reclassifications	–	212,874,665	–	(212,874,665)	–
End of year	7,715,187,455	5,476,623,867	664,719,414	2,307,283,194	16,163,813,930
Accumulated Depreciation					
Beginning of year	–	555,481,286	7,620,000	–	563,101,286
Depreciation for the year (Note 20)	–	134,180,308	–	–	134,180,308
End of year	–	689,661,594	7,620,000	–	697,281,594
Net Book Values	₱7,715,187,455	₱4,786,962,273	₱657,099,414	₱2,307,283,194	₱15,466,532,336

- a. In 2017 and 2016, the Parent Company reclassified cost of condominium units, which was previously recognized as real estate inventory totaling to ₱107.0 million and ₱2,451.6 million, respectively, to investment property in view of management's plan to lease the units (see Note 7).

The addition to land in 2016 pertains to parcels of land acquired from related parties amounting to ₱1,903.4 million, respectively, which will be used for future development (see Note 15).

- b. In 2017 and 2016, the Parent Company reclassified costs of land previously recognized as real estate inventory amounting to ₱494.2 million and ₱97.4 million, respectively, to investment property. Management plans to develop thereon additional buildings to be held for lease (see Note 7).
- c. In 2017, the Parent Company reclassified from investment properties to property and equipment the costs of condominium units and furniture, fixtures and equipment to be used in the operations of serviced apartments totaling to ₱973.7 million (see Note 10).
- d. Rental income and direct operating expenses arising from the investment properties amounted to ₱1,388.0 million and ₱308.4 million in 2017, and ₱1,278.4 million and ₱253.8 million in 2016 and ₱1,172.5 million and ₱226.9 million in 2015, respectively.

Depreciation of investment properties amounting to ₱176.4 million, ₱134.1 million and ₱128.4 million were recognized as part of cost of rental income in 2017, 2016 and 2015, respectively.



- e. Borrowing costs capitalized as cost of investment properties in 2017 amounted to ₱71.8 million (see Notes 15 and 18).
- f. The estimated fair value of land, condominium units, and buildings for lease are as follows:

Property	Approach	Fair Value	Valuation Report Date
Land	Market approach	₱28,232,916,000	January 3, 2018
Condominium units	Market approach	2,330,939,745	January 3, 2018
Buildings for lease	Cost approach	5,244,615,500	January 11, 2018
Building for lease	Cost approach	1,203,452,000	October 13, 2017
		₱37,011,923,245	

The estimated fair value of the land and condominium units was arrived at using the Market Approach. In this approach, the value of the land and building were based on sales and listings of comparable property registered within the vicinity. The approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. For the valuation of the buildings for lease, the Cost Approach method of valuation is used. This method is based on the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. In estimating the cost of replacement of the new building and other land improvements, the Modified Quantity Survey Method is adopted.

The valuations were performed by Philippine SEC-accredited and independent valuer. The valuation model used in accordance with that recommended by the International Valuation Standards Council has been applied. These valuation models are consistent with the principles in PFRS 13.

10. Property and Equipment

As of December 31, 2017:

	Serviced Apartments	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Beginning of year	₱—	₱66,036,811	₱153,017,426	₱22,374,910	₱241,429,147
Additions	—	5,121,750	22,692,095	931,581	28,745,426
Transfer from investment properties (Note 9)	973,713,374	—	—	—	973,713,374
Retirement/Disposal	—	(8,527,985)	(359,809)	—	(8,887,794)
End of year	973,713,374	62,630,576	175,349,712	23,306,491	1,235,000,153
Accumulated Depreciation and Amortization					
Beginning of year	—	49,717,247	121,997,008	18,598,599	190,312,854
Depreciation and amortization (Note 20)	41,114,915	5,749,799	17,583,917	2,334,203	66,782,834
Retirement/Disposal	—	(8,421,822)	(288,689)	—	(8,710,511)
End of year	41,114,915	47,045,224	139,292,236	20,932,802	248,385,177
Net Book Values	₱932,598,459	₱15,585,352	₱36,057,476	₱2,373,689	₱986,614,976



As of December 31, 2016:

	Serviced Apartments	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Beginning of year	P-	P58,797,973	P136,817,775	P20,680,858	P216,296,606
Additions	-	7,238,838	20,332,084	1,694,052	29,264,974
Retirement	-	-	(4,132,433)	-	(4,132,433)
End of year	-	66,036,811	153,017,426	22,374,910	241,429,147
Accumulated Depreciation and Amortization					
Beginning of year	-	43,938,131	113,333,749	16,084,409	173,356,289
Depreciation and amortization (Note 20)	-	5,779,116	12,629,737	2,514,190	20,923,043
Retirement	-	-	(3,966,478)	-	(3,966,478)
End of year	-	49,717,247	121,997,008	18,598,599	190,312,854
Net Book Values	P-	P16,319,564	P31,020,418	P3,776,311	P51,116,293

The Group has fully depreciated property and equipment that are still in use with cost of P164.0 million and P150.8 million as of December 31, 2017 and 2016, respectively.

In 2017 and 2016, the Group recognized as part of "Cost of rental income" the depreciation of equipment used in leasing activities amounting to P1.4 million and P1.2 million, respectively.

11. Other Noncurrent Assets

	2017	2016
Refundable deposits	P159,329,429	P154,831,379
Software	12,351,455	20,967,098
Deferred input VAT	3,560,126	10,557,294
Others	2,900,000	2,900,000
	P178,141,010	P189,255,771

- Refundable deposits consist principally of amounts paid to utility providers for service applications and guarantee deposit required by the Makati Commercial Estate Association (MACEA). Deposits paid to utility companies will be refunded upon termination of the service contract while guarantee deposit paid to MACEA will be refunded upon project completion.
- The rollforward analysis of the Group's software follows:

	2017	2016
Cost		
Beginning of year	P61,580,111	P52,836,922
Additions	1,524,836	8,743,189
End of year	63,104,947	61,580,111
Accumulated Amortization		
Beginning of year	40,613,013	32,071,961
Amortization (Note 20)	10,140,479	8,541,052
End of year	50,753,492	40,613,013
Net Book Values	P12,351,455	P20,967,098

In 2017 and 2016, the Group recognized as part of "Cost of rental income" the amortization of software used in leasing activities amounting to P0.30 million and P0.69 million, respectively.



12. Trade and Other Payables

	2017	2016
Accounts payable	₱626,808,726	₱531,706,702
Retentions payable	608,490,134	576,638,349
Taxes payable	319,597,403	369,888,821
Accrued expenses:		
Real estate development costs	1,335,834,778	1,496,187,756
Rentals	175,103,529	147,306,728
Interest	75,494,652	70,405,770
Utilities, outside services and others	171,858,264	166,919,996
	₱3,313,187,486	₱3,359,054,122

- a. Accounts payable includes amount payable to contractors for the construction and development costs. Retention payable pertains to the amount withheld from progress billings of the contractors as a guaranty for any claims against them. Accounts payable and retentions payable are normally settled within the Group's normal operating cycle.
- b. Accrued expenses represent various accruals of the Group for its expenses and real estate projects. Accrued real estate development costs are construction-related accruals for the real estate projects of the Group.

13. Customers' Deposits

Customers' deposits represent payments received from buyers of condominium and residential units that will eventually be applied against the corresponding contracts receivables following the revenue recognition policy of the Group.

As of December 31, 2017 and 2016, customers' deposits amounted to ₱987.9 million and ₱892.3 million, respectively.

14. Loans Payable

	2017	2016
Bank loans	₱6,107,647,059	₱4,088,235,294
Less unamortized transaction costs	27,500,885	17,286,072
	6,080,146,174	4,070,949,222
Less current portion	384,080,504	466,945,986
Noncurrent portion	₱5,696,065,670	₱3,604,003,236

Bank loans

- a. In 2016, the Parent Company entered into a term loan agreement with Philippine National Bank (PNB) amounting to ₱2,000.0 million secured by certain parcel of land located in Sta. Rosa, Laguna and an office building in Ortigas Avenue, Quezon City and an unsecured term loan agreement with Asia United Bank (AUB) amounting to ₱1,500.0 million to finance the construction of the Parent Company's projects. The term loans with PNB and AUB bear nominal interest rate of 5.0% and will mature on May 31, 2023 and September 28, 2023, respectively. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting August 31, 2016 for term loan with PNB and December 28, 2016 for term loan with AUB.



On June 30, 2017, the Parent Company availed of an additional term loan from PNB amounting to ₱2,490.0 million. The additional term loan bears an interest rate of 5.0% and will mature on May 31, 2023. Principal repayments will commence on August 31, 2018 and are due quarterly while interest payments are due quarterly starting August 31, 2017.

- b. On January 28, 2013, the Parent Company entered into an unsecured term loan agreement with BDO amounting to ₱2,000.0 million to finance the construction of the Parent Company's projects. The term loan bears an interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due quarterly while interest payments are due quarterly starting April 28, 2013. Effective October 28, 2013, the Parent Company and BDO agreed to the new interest rate of 4.75%.

The transaction costs representing fees, taxes and other charges incurred in obtaining the loan were deferred and amortized using the effective interest method. The amortization of transaction costs are recognized as part of "Finance charges" account in the consolidated statements of income.

Movements in the unamortized transaction costs of bank loans as follows:

	2017	2016
Balances at beginning of year	₱17,286,072	₱2,801,685
Additions	12,450,000	17,500,000
Amortization of transaction costs	(2,235,187)	(3,015,613)
Balances at end of year	₱27,500,885	₱17,286,072

Notes payable

Notes payable include various notes from BDO which arose from the assignment of the Groups' contract receivables on a with recourse basis in 2013 and 2012 (see Note 6). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax. In 2016, interest rates ranged from 5.10% to 6.66%, subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first. In 2016, the outstanding notes payable were fully paid by the Group.

Interest expense related to loans payable amounted to ₱200.5 million, ₱117.4 million and ₱67.2 million, net of capitalized portion of ₱58.3 million, nil and ₱9.2 million in 2017, 2016 and 2015, respectively (see Notes 9 and 18).

15. Payables to Landowners

	Note	2017	2016
Five-year 6%-promissory note, quarterly installment	a, b	₱432,377,462	₱2,017,223,762
Three-year floating rate promissory note, quarterly installment	d	1,061,190,858	1,061,190,858
Five-year 6%-promissory note, monthly installment	c	–	240,427,048
Three-year 3.95%-promissory note	e	444,000,000	444,000,000
		1,937,568,320	3,762,841,668
Less current portion		52,692,924	1,762,163,633
Noncurrent portion		₱1,884,875,396	₱2,000,678,035



- a. In February 2016, the Parent Company executed a contract to sell, subject to interest rate of 6%, to a related party amounting to ₱1,900.0 million in relation to its purchase of parcels of land located at Mactan Island, Cebu. The Parent Company paid ₱570.0 million as a downpayment. The remaining balance amounting to ₱1,330.0 million is payable in quarterly installments for the first five years starting 2017, totaling to ₱665.0 million and the remaining balance amounting to ₱665.0 million through balloon payment on the 5th year from the execution of the contract. In 2017, the outstanding payable was fully paid by the Parent Company.
- b. In December 2015, the Parent Company executed contract to sell, subject to interest rate of 6%, to a related party amounting to ₱754.0 million in relation to its purchase of land located at San Juan City, Pasig City and Pasay City with a total purchase price of ₱984.0 million. The promissory note is payable quarterly for five years from execution of the note. As of December 31, 2017 and 2016, outstanding payables amounted to ₱432.4 million and ₱687.2 million, respectively (see Note 17).
- c. In February 2015, the Parent Company executed a contract to sell, subject to interest rate of 6%, to a related party amounting to ₱369.0 million in relation to its purchase of land located at Meralco Avenue, Pasig City with a total purchase price of ₱410.0 million. The promissory note is payable monthly for five years from the date of execution. As of December 31, 2016, outstanding payable amounted to ₱240.4 million. The outstanding payable was fully paid by the Parent Company in 2017 (see Note 17).
- d. On various dates in 2014, ECI and BCI executed a ₱1,061.2 million promissory notes, subject to interest rate of PDSTF 3 years + 0.50%, to various landowners in relation to its purchased land located in Sta. Rosa, Laguna with total purchase price of ₱1.4 billion. The promissory notes are due on the third year of its execution date. In June 2017, the payment of the various promissory notes was extended for another three years.
- e. The Parent Company reclassified the outstanding notes payable to Asia Brewery, Incorporated (ABI) as of December 31, 2017 and 2016 amounting to ₱444.0 million from "Due to related parties" to "Payable to landowners" (see Note 17).
- f. Interest expense related to payables to landowners amounted to ₱137.5 million, ₱217.5 million and ₱78.1 million, net of capitalized portion of ₱13.5 million, nil and ₱52.6 million in 2017, 2016 and 2015, respectively (see Notes 9 and 18).

16. Other Noncurrent Liabilities

	2017	2016
Security deposits	₱452,371,808	₱428,784,612
Advance rentals	151,417,546	152,611,893
Deferred rental income	44,866,489	59,254,895
Retirement benefits liability (Note 23)	68,241,819	56,118,230
	716,897,662	696,769,630
Less current portion of:		
Security deposits	117,715,715	131,060,005
Advance rentals	36,902,631	56,840,208
	154,618,346	187,900,213
	₱562,279,316	₱508,869,417

Security deposits pertain to the amounts paid by the tenants at the inception of the lease which are refundable at the end of the lease term.

Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term based on the lease contract.



17. Related Party Transactions

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. This includes (i) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (ii) associates; and (iii) 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. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The table below shows the details of the Group's transactions with related parties.

	Financial Statement Account	Amount/Volume		Outstanding Balance		Terms and Conditions
		2017	2016	2017	2016	
Subsidiaries of LTG	Cash and cash equivalents	₱383,881,277	₱1,222,693,412	₱917,725,113	₱533,843,836	Deposits and placements; interest-bearing
	Payable to landowners	1,825,273,349	1,900,000,000	(432,377,462)	(2,257,650,811)	Unsecured; interest bearing
	Payable to landowners	-	-	(444,000,000)	(444,000,000)	Unsecured; interest bearing
	Payable to landowners	-	-	(149,364,930)	(149,364,930)	Unsecured; interest bearing
	Loans payable	2,490,000,000	2,000,000,000	(4,490,000,000)	(2,000,000,000)	Secured; interest bearing
	Payables to related parties	66,945,783	345,783	-	(66,945,783)	Unsecured; interest bearing
Entities under Common Control	Payables to related parties	69,151,500	58,905,000	-	-	Management fee; non-interest bearing
	Retentions payable	-	-	(3,021,083)	(3,021,083)	Unsecured; non-interest bearing
	Other current assets	-	641,898	-	-	Non-interest bearing

As of December 31, 2017 and 2016, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Subsidiaries of LTG

- Portion of the Group's cash and cash equivalents are deposited with PNB.
- In 2017 and 2016, the Parent Company entered into a secured term loan agreement with PNB amounting to ₱2,490.0 million and ₱2,000.0 million, respectively, to finance the construction of the Parent Company's projects. Total outstanding payable were recorded under "Loans payable" in the consolidated statements of financial position (see Note 14).
- In 2016 and 2015, the Parent Company purchased parcels of land from PNB for its future projects with a total purchase price amounting to ₱1,900.0 million and ₱1,394.0 million, respectively. Total outstanding payables amounting to ₱432.4 million and ₱2,257.7 million were recorded under "Payables to landowners" as of December 31, 2017 and 2016, respectively (see Note 15).
- In 2014, the Parent Company purchased a parcel of land owned by an affiliate amounting to ₱90.0 million. Outstanding payable amounting to ₱66.9 million was recorded under "Payables to related parties" as of December 31, 2016. In 2017, the outstanding payable was fully paid by the Parent Company.



- In 2014, ECI purchased parcels of land from related parties amounting to ₱201.8 million. Total outstanding payables amounting to ₱149.4 million were recorded as part of "Payables to landowners" as of December 31, 2017 and 2016 (see Note 15).
- On October 1, 2013, the Parent Company purchased a parcel of land from ABI with total lot area of 10,000 square meters for ₱600.0 million. Of this amount, the Group paid ₱156.0 million as down payment and issued a promissory note for the remaining balance with a 3.95% interest rate per annum. The outstanding balance is payable within four years from the execution of the promissory note. In 2017, the promissory note was extended for another three years (see Note 15).
- The Group has a lease agreement with PNB for the use of the latter's common area as office space of the former. Total rental expense recognized by the Group is included in "Outside services" account under "General and administrative expenses" in the consolidated statements of income (see Note 20).

Transactions with Entities under Common Control

- The Group has outstanding advances to Grandspan Development Corporation pertaining to the development of the Group's projects and is included as part of "Other current assets" account.
- In 2011, the Group entered into a management contract agreement with BHC. Total management fee recognized by the Group included in "Outside services" amounted to ₱69.2 million, ₱62.9 million and ₱59.4 million in 2017, 2016 and 2015, respectively (see Note 20).
- The following are the transactions and balances among related parties which are eliminated in the consolidated statements of financial position:

Amounts owed by:	Amounts owed to:	Terms and Conditions	2017	2016
ECI	EPPI	Advances; noninterest-bearing	₱915,999,260	₱874,249,044
ECI	BCI	-do-	53,283,552	53,850,674
BCI	EPPI	-do-	22,730,477	113,194,355
FHI	EPPI	-do-	49,193,963	194,165,618
EPMC	EPPI	-do-	6,534,425	13,430,688

Key Management Personnel

- Compensation of key management personnel are as follows:

	2017	2016
Salaries and wages	₱13,978,382	₱12,707,620
Retirement benefits costs	7,809,698	7,099,725
	₱21,788,080	₱19,807,345

18. Interest Income and Finance Charges

	2017	2016	2015
Interest income:			
Cash and cash equivalents (Note 5)	₱28,083,279	₱14,197,600	₱16,211,746
Contracts receivables (Note 6)	16,472,876	41,673,403	34,618,423
	₱44,556,155	₱55,871,003	₱50,830,169



	2017	2016	2015
Finance charges:			
Interest expense on:			
Loans payable (Note 14)	₱258,766,163	₱117,437,354	₱76,482,699
Payables to landowners (Notes 14 and 15)	151,024,982	217,451,601	130,735,516
	409,791,145	334,888,955	207,218,215
Capitalized interest in:			
Real estate inventories (Note 7)	–	–	(61,856,286)
Investment properties (Note 9)	(71,781,277)	–	–
	(71,781,277)	–	(61,856,286)
	338,009,868	334,888,955	145,361,929
Bank charges and others	17,109,836	22,810,851	30,424,776
	₱355,119,704	₱357,699,806	₱175,786,705

Capitalization rates for general and specific borrowing in 2017 were 5.11% and 3.95%, respectively.

Others include penalties and surcharges which are individually not material as to amounts.

19. Selling Expenses

	2017	2016	2015
Commissions	₱35,363,699	₱40,182,898	₱22,730,412
Advertising and promotions	11,233,159	12,664,645	19,651,381
	₱46,596,858	₱52,847,543	₱42,381,793

20. General and Administrative Expenses

	2017	2016	2015
Personnel costs (Note 21)	₱192,752,164	₱201,562,781	₱164,557,413
Outside services (Note 17)	151,221,535	165,014,795	170,935,676
Taxes and licenses	93,701,921	61,648,392	108,532,262
Depreciation and amortization (Notes 10 and 11)	69,439,490	26,187,745	21,199,329
Repairs and maintenance	48,849,175	30,771,485	23,666,973
Travel and transportation	28,905,500	28,965,608	31,548,733
Communication, light and water	23,334,833	23,569,092	18,728,049
Entertainment, amusement and recreation	21,982,846	13,261,399	12,299,361
Professional fees	13,723,295	9,058,689	11,360,339
General insurance	13,699,584	11,696,149	7,097,492
Office supplies	4,865,618	5,765,160	3,969,653
Others	22,455,350	23,188,883	14,422,825
	₱684,931,311	₱600,690,178	₱588,318,105

Others include expenditures training and seminar fees, membership fees and research and development costs which are individually not material.

In 2017, the Group reclassified the reversal of interest income in 2016 related to cancelled contracts totaling to ₱39.1 million from "General and administrative expenses" account to "Loss on cancelled contracts" account (see Note 22).



21. Personnel Costs

	2017	2016	2015
Salaries and wages	₱130,686,528	₱142,750,549	₱119,864,037
Employee benefits	32,649,664	32,880,647	22,294,810
Retirement benefits cost (Note 23)	29,415,972	25,931,585	22,398,566
	₱192,752,164	₱201,562,781	₱164,557,413

22. Other Income

	2017	2016	2015
Rental dues	₱150,616,283	₱169,684,010	₱182,623,797
Loss on cancelled contracts	(93,177,383)	(177,246,320)	(202,813,490)
Management fees	15,939,418	10,690,423	–
Penalty income and late payment charges	5,002,353	8,222,249	15,023,847
Others - net	16,983,413	52,723,146	15,785,704
	₱95,364,084	₱64,073,508	₱10,619,858

23. Retirement Benefits

The Parent Company and EPMC have an unfunded, noncontributory defined benefit type of retirement plan covering substantially all of its employees. The retirement benefits is equivalent to seventeen-and-a-half (17.50) days final basic salary for every year of service with a fraction of six months considered as one year. The projected unit credit cost method is used in determining the retirement benefits liability, which takes into account the factors of mortality, discount, turnover, retirement and salary increase rates of employees. The latest actuarial valuation report is at December 31, 2017.

RA No. 7641 ("Retirement Pay Law"), an Act Amending Article 287 of Presidential Decree No. 442 ("Labor Code of the Philippines"), requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of retirement benefits cost (included in "Personnel costs" under general and administrative expenses) in the Group's consolidated statements of income are as follows:

	2017	2016	2015
Current service cost	₱26,503,436	₱23,593,928	₱20,670,940
Interest cost on defined benefits obligation	2,912,536	2,337,657	1,727,626
	₱29,415,972	₱25,931,585	₱22,398,566

The retirement benefits liabilities recognized as part of "Other noncurrent liabilities" in the consolidated statements of financial position amounted to ₱68.2 million and ₱56.1 million as of December 31, 2017 and 2016, respectively.



Changes in the present value of the defined benefits obligation are as follows:

	2017	2016	2015
Beginning of year	₱56,118,230	₱46,940,896	₱38,391,693
Retirement benefits cost in profit or loss:			
Current service cost	26,503,436	23,593,928	20,670,940
Interest cost on defined benefits obligation	2,912,536	2,337,657	1,727,626
	29,415,972	25,931,585	22,398,566
Remeasurement gains in other comprehensive income - actuarial changes arising from:			
Experience adjustments	(9,120,777)	(13,977,650)	(8,788,229)
Change in financial assumptions	(8,171,606)	(2,776,601)	(5,545,657)
Changes in demographic assumptions	-	-	484,523
	(17,292,383)	(16,754,251)	(13,849,363)
End of year	₱68,241,819	₱56,118,230	₱46,940,896

The principal assumptions used in determining retirement benefits cost as of January 1 follow:

	2017	2016	2015
Discount rate	5.19%	4.98%	4.50%
Salary increase rate	10.00%	10.00%	10.00%
Average future working years of service	23	24	24

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	2017	2016
Discount rate		
+0.5%	(₱6,884,021)	(₱6,012,017)
-0.5%	7,836,337	6,880,860
Future salary increase rate		
+1.0%	15,549,458	13,625,910
-1.0%	(12,386,777)	(10,755,355)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2017	2016
Less than 1 year	₱1,863,823	₱1,560,243
More than 1 year up to 5 years	1,805,348	934,670
More than 5 years up to 10 years	35,995,611	23,016,031
More than 10 years up to 15 years	100,442,640	86,191,186
More than 15 years up to 20 years	227,766,033	235,635,464
More than 20 years	4,805,718,762	4,584,504,371



24. Income Taxes

- a. Details of the Group's provision for current income tax follow:

	2017	2016	2015
RCIT	₱159,206,559	₱182,632,145	₱230,932,064
MCIT	5,082,105	2,489,830	417,353
Final	5,809,906	2,846,858	3,290,103
	₱170,098,570	₱187,968,833	₱234,639,520

- b. The Group's recognized net deferred income tax assets as of December 31, 2017 and 2016 follow:

	2017	2016
Deferred income taxes directly recognized in profit or loss:		
Deferred income tax assets on:		
Accrued rent expense	₱52,531,059	₱44,192,018
Retirement benefits liability	43,199,699	34,374,908
Advance rentals	25,278,408	27,349,555
Accrued expenses	13,216,458	18,379,967
Excess MCIT	6,993,874	2,992,708
Unrealized foreign exchange loss	43,755	—
Difference between tax basis and book basis of accounting for real estate transactions	5,092,300	624,512
	146,355,553	127,913,668
Deferred income tax liabilities on:		
Deferred rental income	(44,345,632)	(47,434,375)
Difference between tax basis and book basis of accounting for real estate transactions	(23,876,906)	(31,612,646)
Capitalized borrowing cost	(21,534,383)	—
Unamortized debt cost	(7,947,851)	(4,680,699)
Unrealized foreign exchange gain	—	(1,411,358)
	(97,704,772)	(85,139,078)
	48,650,781	42,774,590
Deferred income tax liability on gains arising from changes in actuarial assumptions directly recognized in equity	(22,727,154)	(17,539,439)
	₱25,923,627	₱25,235,151

- c. As of December 31, 2017 and 2016, the Group has not recognized deferred income tax assets on the carryforward benefits of NOLCO and excess MCIT totaling to ₱193.4 million and ₱314.1 million, respectively, based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized.

Details of the Group's NOLCO follow:

Year Incurred	Amount	Additions	Applied	Balance as of December 31, 2017	Available Until
2014	₱82,784,244	₱—	(₱82,784,244)	₱—	—
2015	122,250,312	—	(37,644,140)	84,606,172	2018
2016	108,145,941	—	(1,093,759)	107,052,182	2019
2017	—	734,302	—	734,302	2020
	₱313,180,497	₱734,302	(₱121,522,143)	₱192,392,656	



Details of the Group's excess MCIT follow:

Year Incurred	Amount	Additions/ (Expiration)	Applied	Balance as of December 31, 2017	Available Until
2014	P1,080,937	(P1,080,937)	P-	P-	-
2015	417,353	-	-	417,353	2018
2016	2,451,447	-	-	2,489,830	2019
2017	-	5,082,105	-	5,082,105	2020
	P3,949,737	P4,001,168	P-	P7,989,288	

- d. A reconciliation of the provision for income tax at the applicable statutory income tax rate to the provision for income tax as shown in the consolidated statements of income follows:

	2017	2016	2015
Provision for income tax at the statutory income tax rate	P153,629,477	P180,380,694	P169,083,826
Adjustments for:			
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized	42,190,378	33,450,138	36,785,013
Application of NOLCO for which no deferred income tax asset was recognized in prior years	(36,082,739)	(18,236,363)	-
Nondeductible expenses	6,019,402	15,932,029	11,126,545
Interest income subjected to final tax	(2,615,076)	(1,412,421)	(1,573,415)
Expiration of NOLCO and excess MCIT for which deferred income tax assets were recognized in prior years	1,080,937	1,646,107	6,721,237
Derecognition of deferred income tax assets deemed to be worthless	-	-	28,214,739
Provision for income tax	P164,222,379	P211,760,184	P250,357,945

- e. On December 19, 2017, RA No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect business on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

25. Equity

Capital Stock

Details of the Parent Company's capital stock as of December 31 are as follows:

	Number of Shares	
	2017	2016
Authorized capital stock at P1 par value		
Beginning and end of year	8,000,000,000	8,000,000,000
Issued and outstanding capital stock at P1 par value		
Issued capital stock	5,723,017,872	5,723,017,872
Treasury shares	(10,000)	(10,000)
Outstanding capital stock	5,723,007,872	5,723,007,872



On May 12, 1988, the Philippine SEC approved the registration and licensing of the 30.0 billion authorized capital stock of the Parent Company with a total par value of ₱300.0 million divided into 18 billion Class "A" shares with par value of ₱0.01 per share and 12.0 billion Class "B" shares with par value of ₱0.01 per share. The Parent Company's management does not have the necessary information on the issue/offer price of these shares. On May 12, 1988, the Philippine SEC issued a certificate of permit to offer securities for sale to the Parent Company authorizing the sale of the ₱300.0 million worth of shares of the latter and issuance of certificates of stock for the shares already subscribed and paid for.

On February 21, 1994, the Philippine SEC approved the increase in the authorized capital stock of the Parent Company from ₱300.0 million to ₱1.0 billion divided into 60.0 billion Class "A" shares with par value of ₱0.01 per share and 40.0 billion Class "B" shares with par value of ₱0.01 per share.

The Parent Company's management does not have the necessary information on the issue/offer price of these shares. On March 11, 1994, the Philippine SEC issued a certificate of permit to offer securities for sale to the Parent Company authorizing the sale of the latter's shares.

On June 25, 1996, by majority vote of the BOD and stockholder representing at least two-thirds votes of the outstanding capital stock, an amendment on the articles of incorporation of the Parent Company was adopted. The amendment among others includes the changing of the par value of the authorized capital stock of the Parent Company from ₱0.01 per share to ₱1.00 per share. The amendment was approved by the Philippine SEC on August 12, 1997.

In the stockholders meeting held on January 14, 2003, a quasi re-organization was approved which includes a reduction in the authorized capital stock of the Parent Company from ₱1,000.0 million to ₱73.8 million and subsequently, an increase in the authorized capital stock of the Parent Company, after decrease is effected, to ₱5,000.0 million divided into 5,000.0 million shares having a par value of ₱1.00 per share.

On October 8, 2003, the Philippine SEC approved the decrease in the total authorized capital stock of the Parent Company from ₱1,000.0 million to ₱73.8 million consisting of 73.8 million shares with par value of ₱1.00 per share. On the same day, the Philippine SEC approved the increase in the total authorized capital stock of the Parent Company from ₱73.8 million to ₱5,000.0 million consisting of 5,000.0 million shares with par value of ₱1.00 per share. Saturn subscribed to ₱1,231.6 million out of the ₱4,926.2 million increase in the authorized capital stock.

On March 2, 2015, the Parent Company's BOD approved the increase in its authorized capital stock from ₱5,000.0 million divided into 5,000.0 million common shares with a par value of ₱1.00 per share to ₱8,000.0 million divided into 8,000.0 million common shares with a par value of ₱1.00 per share. On September 28, 2015, Eton filed an application with the Philippine SEC to increase its authorized capital stock which was subsequently approved by the Philippine SEC on September 30, 2015. Out of the increase of 3,000.0 million common shares, 419 million common shares and 331 million common shares have been subscribed by Paramount and Saturn, respectively, at a subscription price of ₱2.72 per share (see Note 1).

The issued and outstanding registered shares are held by 1,665 stockholders as of December 31, 2017 and 2016, respectively.

Asset-for-Share Swap

On October 6, 2009, the Parent Company's BOD approved the acquisition of an approximately 12-hectare property, with an appraised value of ₱3,953.2 million, owned by Paramount where the Eton Centris projects are situated in exchange for the issuance of 1.6 billion shares to Paramount at



₱2.50 per share. On October 22, 2009, the Parent Company and Paramount executed a Deed of Conveyance pertaining to the asset-for-share swap. In 2011, the property and the deposit for future stock subscription were adjusted by the Parent Company to reflect the amount equal to ₱4.0 billion as approved by Philippine SEC. Accordingly, the Parent Company reclassified the deposit for future stock subscription into subscribed capital stock and additional paid-in capital amounting to ₱1.6 billion and ₱2.4 billion, respectively. The subscribed capital stock was issued as of December 31, 2012.

In 2012, subscription receivable from Paramount amounting to ₱573.7 million was collected. The corresponding subscribed shares were issued as of December 31, 2012.

Deposit for Future Stock Subscription

On November 14, 2014, Paramount and Saturn authorized the conversion of its advances to the Parent Company amounting to ₱3,150.0 million and ₱2,350.0 million, respectively, into equity by way of subscription to 2,067,669,172 shares of stock at an issue price of ₱2.66 per share. On January 14, 2015, the Parent Company filed the application for conversion with the Philippine SEC which was subsequently approved on January 23, 2015.

Additional Paid-in Capital

In 2013, the Parent Company received cash from Paramount amounting to ₱1,100.0 million as additional capital contribution, which is recognized under "Additional paid-in capital" account.

Costs incurred directly related to the issuance of capital stock in 2015 amounting to ₱15.7 million were charged to "Additional paid-in capital".

Retained Earnings

The retained earnings is restricted for payment of dividends to the extent of the amount of treasury shares amounting to ₱7,955.

Portion of the retained earnings pertaining to undistributed earnings of subsidiaries amounting to ₱173.0 million and ₱160.2 million as of December 31, 2017 and 2016, respectively, and unrealized items amounting to ₱131.2 million and ₱122.5 million as of December 31, 2017 and 2016, respectively, are not available for dividend declaration.

26. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	2017	2016	2015
Net income	₱347,875,876	₱389,508,796	₱313,254,809
Divided by weighted average number of common shares	5,723,007,872	5,723,007,872	5,723,007,872
Basic/diluted earnings per share	₱0.0608	₱0.0681	₱0.0547

In 2017, 2016, and 2015, there are no potential common shares, thus, basic and diluted earnings per share are the same.



27. Operating Leases

The Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. The Group records rental income on a straight-line basis over the lease term and a certain percentage of gross revenue of tenants, as applicable, on a noncancellable lease term. The Group recognized variable rental income amounting to ₱13.9 million, ₱13.2 million and ₱14.1 million in 2017, 2016 and 2015, respectively.

Future minimum rentals receivables under noncancellable operating leases as of December 31 follow:

	2017	2016
Within one year	₱1,185,458,203	₱1,086,431,073
After one year but not more than five years	1,817,706,150	2,071,213,067
More than five years	145,504,668	270,637,399
	₱3,148,669,021	₱3,428,281,539

The Group as lessee

- i. The Group entered into a renewable cancellable lease agreement with PNB, which generally provides for a fixed monthly rent for the Group's office spaces (see Note 17).
- ii. The Parent Company also entered into various lease agreements as follows:
 - a. Lease agreements with third parties for the lease of parcels of land in Ortigas Avenue, Quezon City where one of the Parent Company's projects is located. The lease agreement shall be for the period of 20 years commencing on January 1, 2011 renewable for another 20 years at the option of the lessee, the Parent Company, with lease payment subject to 5% escalation annually.
 - b. Lease agreement for the lease of parcels of land in San Juan City where one of the Parent Company's projects is located. The lease agreement shall be for the period of 15 years commencing on June 1, 2017 renewable at the option of the lessor with lease payment subject to 5% escalation annually.

Future minimum rentals payables as of December 31 follow:

	2017	2016
Within one year	₱24,043,373	₱17,441,613
After one year but not more than five years	117,131,363	78,934,308
More than five years	1,477,640,743	1,387,329,045
	₱1,618,815,479	₱1,483,704,966

28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are cash and cash equivalents, payables to related parties and loans payable. The main purpose of these financial instruments is to finance the Group's operations. The Group has various financial assets and financial liabilities such as trade and other receivables, refundable deposits, security deposits, and trade and other payables, which arise directly from its operations.

It is the Group's policy that no trading of financial instruments shall be undertaken. Management closely monitors the cash fund and financial transactions of the Group. Cash funds are normally deposited with banks considered as related parties, and financial transactions are normally dealt with related parties. These strategies, to an extent, mitigate the Group's interest rate and credit risks.



Exposure to credit, liquidity, interest rate and foreign currency risks arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are: (a) to identify and monitor such risks on an ongoing basis, (b) to minimize and mitigate such risks, and (c) to provide a degree of certainty about costs.

The BOD reviews and approves the policies for managing these risks which are described below.

Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group's credit risks are primarily attributable to cash in banks and cash equivalents, contracts receivables and other financial assets.

Credit risk is managed primarily through analysis of receivables on a continuous basis. In addition, the credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

The carrying amount of cash in banks and cash equivalents, trade and other receivables, and refundable deposits represent the Group's maximum exposure to credit risk.

As of December 31, 2017 and 2016, the Group's maximum exposure to credit risk for the components of the consolidated statements of financial position follows:

	2017	2016
Loans and receivables:		
Cash in banks and cash equivalents	₱1,528,871,154	₱2,271,620,297
Trade and other receivables:		
Contracts receivables	1,460,833,618	2,067,895,683
Lease receivables	27,759,771	28,940,739
Receivable from buyers	312,963,592	326,592,413
Receivable from tenants	32,660,091	24,969,210
Others*	297,813,213	185,379,094
Refundable deposits	160,918,229	154,861,379
	₱3,821,819,668	₱5,060,258,815

*Excluding advances to officers and employees amounting to ₱1.9 million and ₱0.5 million as of December 31, 2017 and 2016, respectively.

The Group is not exposed to concentration risk because it has a diverse base of counterparties.

The tables below show the credit quality of the Group's financial assets:

As of December 31, 2017:

	Neither past due nor impaired		Past due but not impaired	Total
	High Grade	Medium Grade		
Cash in banks and cash equivalents	₱1,528,871,154	₱-	₱-	₱1,528,871,154
Trade and other receivables:				
Contracts receivables	-	725,994,930	734,838,688	1,460,833,618
Lease receivables	-	7,422,288	20,337,483	27,759,771
Receivable from buyers	-	312,963,592	-	312,963,592
Receivables from tenants	-	27,947,174	4,712,917	32,660,091
Others	-	297,813,213	-	297,813,213
Refundable deposits	-	138,686,176	22,232,053	160,918,229
	₱1,528,871,154	₱1,510,827,373	₱782,121,141	₱3,821,819,668



As of December 31, 2016:

	Neither past due nor impaired		Past due but not impaired	Total
	High Grade	Medium Grade		
Cash in banks and cash equivalents	P2,271,620,297	P-	P-	P2,271,620,297
Trade and other receivables:				
Contracts receivables	-	824,973,129	1,242,922,554	2,067,895,683
Lease receivables	-	11,835,029	17,105,710	28,940,739
Receivable from buyers	-	326,592,413	-	326,592,413
Receivables from tenants	-	22,555,605	2,413,605	24,969,210
Others	-	185,379,094	-	185,379,094
Refundable deposits	-	127,138,962	27,722,417	154,861,379
	P2,271,620,297	P1,498,474,232	P1,290,164,286	P5,060,258,815

The credit qualities of the financial assets were determined as follows:

- High grade - pertains to cash in banks and cash equivalents that are deposited or invested in reputable banks.
- Medium grade - pertains to financial instruments wherein counter parties have a minimal likelihood of default and have consistently exhibited good paying habits. These financial assets are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.
- Past due but not impaired - pertains to financial instruments with probability of impairment based on historical trend. Contracts receivables under this credit quality classification show propensity to default in payment despite regular follow up actions and extended payment terms.

The table below shows an aging analysis of financial assets that are past due but not impaired:

As of December 31, 2017:

	Less than 30 days	30 - 60 days	More than 60 days	Total
Loans and receivables:				
Trade and other receivables:				
Contracts receivables	P34,488,886	P63,803,263	P636,546,539	P734,838,688
Lease receivables	6,916,661	4,951,254	8,469,568	20,337,483
Receivable from tenants	906,144	2,398,690	1,408,083	4,712,917
Refundable deposits	984,134	1,364,746	158,569,349	160,918,229
	P43,295,825	P72,517,953	P804,993,539	P920,807,317

As of December 31, 2016:

	Less than 30 days	30 - 60 days	More than 60 days	Total
Loans and receivables:				
Trade and other receivables:				
Contracts receivables	P4,969,410	P11,570,966	P1,226,382,178	P1,242,922,554
Lease receivables	4,929,322	961,575	11,214,813	17,105,710
Receivable from tenants	340,400	215,387	1,857,818	2,413,605
Refundable deposits	-	4,600,000	150,261,379	154,861,379
	P10,239,132	P17,347,928	P1,389,716,188	P1,417,303,248



Liquidity risk

Liquidity risk is defined as risk that the Group would not be able to settle or meet its obligations on time. The Group maintains sufficient cash in order to fund its operations.

In mitigating liquidity risk, management measures and forecasts its cash commitments, matches debt maturities with the assets being financed, maintains a diversity of funding sources with its unhampered access to bank financing and the capital markets and develops viable funding alternatives through its customers' deposits arising from the Group's pre-selling activities.

The tables below show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the undiscounted cash flows from financial assets used for liquidity management.

As of December 31, 2017:

	On demand	Less than 1 year	1 - 5 years	Total
Financial liabilities:				
Trade and other payables:				
Accounts payables*	P=	P624,007,956	P=	P624,007,956
Retentions payable	-	608,490,134	-	608,490,134
Accrued expenses	-	1,758,291,223	-	1,758,291,223
Loans payable	-	384,080,504	5,696,065,670	6,080,146,174
Payable to landowners	-	52,692,924	1,884,875,396	1,937,568,320
Security deposits	-	117,715,715	334,656,093	452,371,808
	P=	P3,545,278,456	P7,915,597,159	P11,460,875,615
Financial assets:				
Cash and cash equivalents	P657,029,484	P873,485,597	P=	P1,530,515,081
Trade and other receivables**	759,889,088	605,344,898	766,796,299	2,132,030,285
	P1,416,918,572	P1,478,830,495	P766,796,299	P3,662,545,366

*Excluding payable to government agencies amounting to P2.8 million.

**Excluding advances to officers and employees amounting to P1.9 million.

As of December 31, 2016:

	On demand	Less than 1 year	1 - 5 years	Total
Financial liabilities:				
Trade and other payables:				
Accounts payables	P=	P530,327,837	P=	P530,327,837
Retentions payable	-	576,638,349	-	576,638,349
Accrued expenses	-	1,880,820,250	-	1,880,820,250
Payables to related parties	-	66,945,783	-	66,945,783
Loans payable	-	466,945,986	3,604,003,236	4,070,949,222
Payable to landowners	-	1,644,073,633	2,118,768,035	3,762,841,668
Security deposits	-	132,628,595	296,156,017	428,784,612
	P=	P5,298,380,433	P6,018,927,288	P11,317,307,721
Financial assets:				
Cash and cash equivalents	P1,081,994,958	P1,190,507,379	P=	P2,272,502,337
Trade and other receivables**	1,262,441,869	700,605,832	670,729,438	2,633,777,139
	P2,344,436,827	P1,891,113,211	P670,729,438	P4,906,279,476

*Excluding payable to government agencies amounting to P1.4 million.

**Excluding advances to officers and employees amounting to P0.5 million.

Interest rate risk

The Group's exposure to interest rate risk arises from the Parent Company's loans payable. The Group's policy is to manage its interest cost using a mix of fixed and variable rate loans.



The table below demonstrates the possible increase (decrease) in the Group's income before tax as a result of reasonably possible changes in interest rate as of December 31, 2017 and 2016, with all other variables held constant. There is no impact on the Group's equity other than those already affecting the consolidated statements of income.

	Changes in basis points	2017	2016
Bank loans	+100	(P59,176,471)	(P63,882,353)
	-100	59,176,471	63,882,353

Foreign currency risk

Foreign exchange risk is the risk on volatility of earnings or capital arising from changes in foreign exchange rates, mainly US Dollar to Peso exchange rate. The Group's exposure to foreign currency risk arises from US Dollar-denominated cash and cash equivalents.

The following table shows the Group's cash and cash equivalents denominated in US dollar and their peso equivalents as of December 31, 2017 and 2016.

	US Dollar Value	Peso Equivalent
2017	\$1,588,870	P79,332,279
2016	\$1,300,002	P64,636,099

The exchange rate used as of December 31, 2017 and 2016 were P49.93 to US\$1.00 and P49.72 to US\$1.00, respectively. The Group recognized net foreign exchange loss amounting to P0.15 million in 2017 and net foreign exchange gains of P4.4 million in 2016.

The table below represents the impact on the Group's income before income tax as a result of a reasonably possible change in US Dollar to Peso exchange rate with all other variables held constant as of December 31, 2017 and 2016. There is no impact on the Group's equity other than those already affecting the consolidated statements of income.

	Change in Dollar Foreign Exchange Rate	Effect on Income before Income Tax
2017	2.77%	P2,197,504
	(2.77%)	(2,197,504)
2016	4.35%	P2,808,670
	(4.35%)	(2,808,670)

Fair Value Information

Presented below is the comparison of the carrying values and fair values of the Group's financial assets and liabilities that are presented in the consolidated statements of financial position as of December 31, 2017 and 2016.

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash on hand	P1,643,927	P1,643,927	P882,040	P882,040
Loans and receivables:				
Cash in banks and cash equivalents	1,528,871,154	1,528,871,154	2,271,620,297	2,271,620,297
Contracts receivables	1,460,833,618	1,460,833,618	2,067,895,683	2,067,895,683
Lease receivables	27,759,771	27,759,771	28,940,739	28,940,739
Receivables from buyers	312,963,592	312,963,592	326,592,413	326,592,413
Receivables from tenants	32,660,091	32,660,091	24,969,210	24,969,210
Others*	297,813,213	297,813,213	185,379,094	185,379,094
Refundable deposits**	160,918,229	160,918,229	154,861,379	154,861,379
	P3,823,463,595	P3,823,463,595	P5,061,140,855	P5,061,140,855

* Excluding advances to officers and employees amounting to P1.9 million and P0.5 million as of December 31, 2017 and 2016, respectively.

** Presented as part of "Other noncurrent assets" account.



	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Other financial liabilities:				
Trade and other payables:				
Accounts payable*	P624,007,956	P624,007,956	P530,327,837	P530,327,837
Retentions payable	608,490,134	608,490,134	576,638,349	576,638,349
Accrued expenses	1,758,291,223	1,758,291,223	1,880,820,250	1,880,820,250
Payables to related parties	—	—	66,945,783	66,945,783
Loans payable	6,080,146,174	5,443,815,155	4,070,949,222	3,712,315,611
Payables to landowners	1,937,568,320	1,934,285,924	3,762,841,668	3,186,368,747
Security deposits**	452,371,808	414,361,628	428,784,612	390,791,278
	P11,460,875,615	P10,783,252,020	P11,317,307,721	P10,344,207,855

* Excluding payable to government agencies amounting to P2.8 million and P1.4 million as of December 31, 2017 and 2016, respectively.

** Presented as part of "Deposits and other liabilities" and "Other noncurrent liabilities" account.

The following methods and assumptions are used to estimate the fair value of each class of financial and non-financial instruments:

Cash and cash equivalents, trade and other receivables, trade and other payables, and payables to related parties

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, and payables to related parties approximate their fair values due to the short-term nature of these financial instruments. The noncurrent portion of trade receivables is interest-bearing with interest rates that approximate market interest rates as of December 31, 2017 and 2016.

Refundable deposits

The carrying value of deposits is the best estimate of its fair value since the related contracts and agreements pertaining to these deposits have indeterminable terms.

Loans payable, payables to landowners and security deposits

The fair values of loans payable, payables to landowners and security deposits are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 2.36% to 4.73% and 1.89% to 3.88% as of December 31, 2017 and 2016, respectively. Management has determined the inputs to be Level 3.

Investment properties

The estimated fair value of the investment properties as of the latest valuation date, amounted to P37.0 billion. The values of the land, condominium units and buildings for lease were arrived at using the Market Approach and Cost Approach as discussed in Note 9. Due to the judgment involved in calculating the fair value of the investment properties, management has determined the inputs to be Level 3.

In 2017 and 2016, there were no transfers between Levels 1 and 2 fair value measurements, and no transfers into and out of Level 3 measurements.

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As of December 31, 2017 and 2016, there are no financial instruments measured at fair value under Levels 1, 2 and 3. There was no transfer between hierarchies in 2017 and 2016.



29. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating, complies with externally imposed capital requirements and maintain healthy capital ratios in order to support its business and maximize stockholder value.

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 may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2017 and 2016. Accordingly, the Group is not subject to externally imposed capital requirements.

The table below summarizes the total capital considered by the Group:

	2017	2016
Capital stock	₱5,723,017,872	₱5,723,017,872
Additional paid-in capital	8,206,662,618	8,206,662,618
Retained earnings	2,708,999,259	2,361,123,383
Treasury shares	(7,955)	(7,955)
	₱16,638,671,794	₱16,290,795,918

30. Registration with Philippine Economic Zone Authority (PEZA)

The Group's projects namely, Eton Cyberpod Corinthian and Eton Centris, were registered with PEZA on August 27, 2008 and September 19, 2008, respectively, as non-pioneer "ecozone developer/operator". The locations are created and designated as Information Technology Park.

31. Registration with Board of Investments (BOI)

The Group has three BOI-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP).

BP is registered with BOI as a new developer of low-cost housing project on a Non-Pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226) on September 15, 2008. This registration entitles the Group to four years ITH from November 2008 or actual commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to the revenue generated from this project. Revenue with selling price exceeding ₱3.0 million shall not be covered by ITH.

Likewise, on September 23, 2008, two other projects of the Group namely, OAP and EEL, were registered with the BOI as a new developer of low-cost housing project on a Non-Pioneer status. These two projects shall enjoy the same benefits as BP.

The ITH incentives entitlements of the Group already expired in 2012.

32. Contingencies

The Group has various contingent liabilities from legal cases arising from the normal course of business which are currently being contested by the Group. The outcomes of these cases are not currently determinable. Management and its legal counsel believe that the eventual liability from these legal cases, if any, will not have a material effect on the consolidated financial statements.



33. Notes to Consolidated Statements of Cash Flows

The principal non-cash investing and financing activities of the Group follow:

- In 2017, 2016 and 2015, the Parent Company reclassified real estate inventory amounting to ₱536.7 million, ₱2,549.0 million and ₱1,106.9 million, respectively, to investment property (see Notes 7 and 9).
- In 2017, the Parent Company reclassified costs of condominium units and furniture, fixtures and equipment totaling to ₱973.7 million to property and equipment (see Notes 9 and 10).
- Borrowing costs capitalized as cost of investment properties and real estate inventory in 2017 and 2015 amounted to ₱71.8 million and ₱61.9 million (nil in 2016), respectively (see Notes 7 and 9).
- In February 2016, the Parent Company executed a contract to sell amounting to ₱1,900.0 million in relation to its purchase of parcels of land which was included as part of "Investment properties". As of December 31, 2016, the outstanding balance amounting to ₱1,330.0 million were included under "Payable to landowners" in the consolidated statement of financial position (see Note 15).
- In 2015, the Parent Company purchased parcels of land from a related party amounting to ₱1,394.0 million which were included as part of "Investment properties" (see Notes 9 and 15).
- Non-cash financing activity of the Group pertains to the amortization of transaction costs amounting to ₱2.2 million in 2017 and ₱3.0 million in 2016 and 2015 (see Note 14).
- Reconciliation of the movements of liabilities arising from financing activities are as follows:

	Loans payable	Payables to landowners	Total
Beginning balance	₱4,070,949,222	₱3,762,841,668	₱7,833,790,890
Cash movements:			
Availment of an additional loan	2,490,000,000	—	2,490,000,000
Cash settlements during the year	(470,588,235)	(1,825,273,348)	(2,295,861,583)
Payment of transaction costs	(12,450,000)	—	(12,450,000)
Non-cash movement:			
Amortization of transaction costs	2,235,187	—	2,235,187
Ending balance	₱6,080,146,174	₱1,937,568,320	₱8,017,714,494



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Eton Properties Philippines, Inc.
8/F Allied Bank Center, 6754 Ayala Avenue
Makati City, Metro Manila, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Eton Properties Philippines, Inc. and Subsidiaries as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated March 5, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.


Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621267, January 9, 2018, Makati City

March 5, 2018



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017

Supplementary schedules required by Securities Regulation Code Rule 68, As Amended (2011):

- Schedule of all the effective standards and interpretations
- Reconciliation of retained earnings available for dividend declaration



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS
AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRS Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	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			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3 : Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3 : Scope Exceptions for Joint Arrangements			✓

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Group did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Changes in Method of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
	Amendments to PFRS 7: Servicing Contracts			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8 : Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Asset	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 9	Financial Instruments*		✓	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13 : Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*		✓	
PFRS 16	Leases*		✓	

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
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, Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 : Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses*	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and 38: Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Regional Market Issue Regarding Discount Rate	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
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	✓		
	Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PAS 32 (cont'd)	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	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			✓
	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	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PAS 39 (cont'd)	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Interrelationship between PFRS 3 and PAS 40	✓		
	Amendments to PAS 40: Transfers of Investment Property*		✓	
PAS 41	Agriculture			✓
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	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 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			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
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-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			✓

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ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2017

Retained earnings as of December 31, 2016		₱2,469,958,718
Less: Deferred income tax assets, beginning		(122,503,112)
Treasury shares		(7,955)
Retained earnings, as adjusted to amount available for dividend declaration, beginning		2,347,447,651
Add net income actually earned/realized during the year:		
Net income during the year closed to retained earnings	₱392,071,416	
Movement in deferred income tax assets that increased the net income	(8,668,318)	383,403,098
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS AT DECEMBER 31, 2017		₱2,730,850,749

Note: In accordance with SEC Financial Reporting Bulletin No. 14, the reconciliation is based on the separate/parent company financial statements of Eton Properties Philippines, Inc.

