



Eton Properties Philippines, Inc.

8/F Allied Bank Center
6754 Ayala Avenue cor. Legaspi Street
Makati City, Philippines

Trunkline: (632) 548-4000
Fax No.: (632) 887-1549

www.eton.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

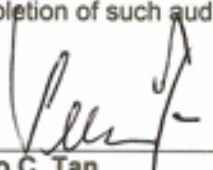
The management of **Eton Properties Philippines, Inc. and its subsidiaries** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated 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 consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

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



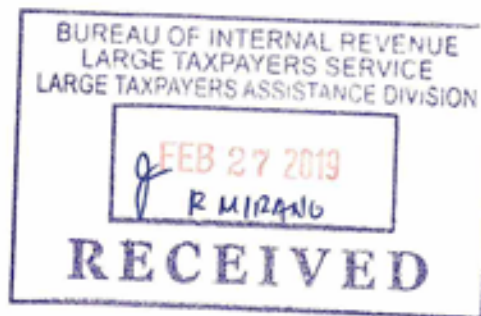
Lucio C. Tan
Chairman



Lucio K. Tan Jr.
President



Wilfredo Z. Pineda
Chief Financial Officer



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	

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal on this
FEB 11 2019 day of _____, 2019 At MAKATI CITY.

Doc. No. 232

Page No. 42

Book No. LXXXIV

Series of 2019

Julie O. Cua
Notary Public for Makati City
Roll of Attorneys No. 35358
PTR No. 7333043/01-03-2019
IBP Lifetime Member No. 00104
6/F 6754 Ayala Avenue, Makati City
MCLE Compliance No. V-0015369/03-02-2016
Commission No. M-114 until 31 December 2020

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

9 FEB 27 2019
R. MIDANO

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COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

4 3 7 9 8

COMPANY NAME

ETON PROPERTIES PHILIPPINES,
INC. AND SUBSIDIARIES

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

8 / F ALLIED BANK CENTER, 6754
AYALA AVENUE, MAKATI CITY,
METRO MANILA, PHILIPPINES

Form Type

A C F S

Department requiring the report

C R M D

Secondary License Type, if Applicable

N A

COMPANY INFORMATION

Company's Email Address

www.eton.com.ph

Company's Telephone Number

(632) 548-4000

Mobile Number

N/A

No. of Stockholders

1,666

Annual Meeting (Month / Day)

April 17

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

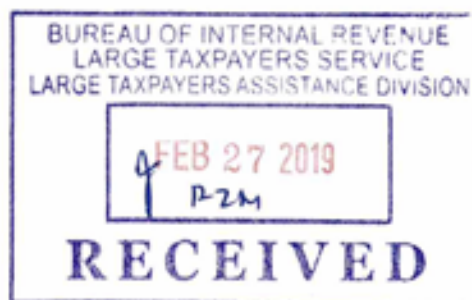
NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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, 2018 and 2017, 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, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

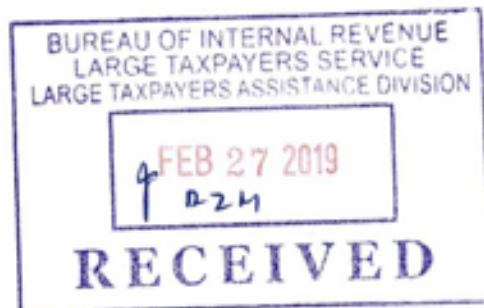
Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2018 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, 2018, 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-4 (Group A),

August 23, 2018, valid until August 22, 2021

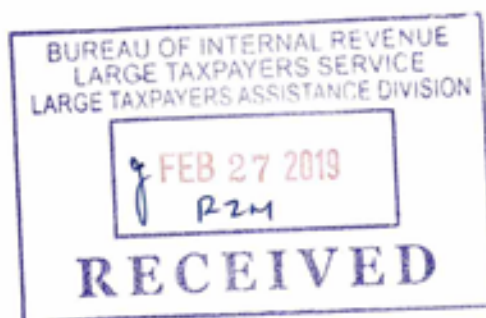
Tax Identification No. 152-884-272

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

February 26, 2018, valid until February 25, 2021

PTR No. 7332557, January 3, 2019, Makati City

February 11, 2019

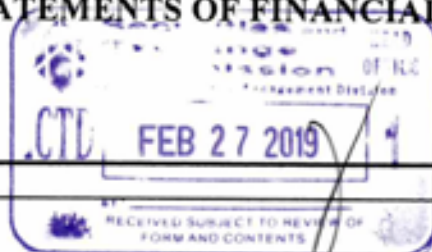


ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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December 31

2018

2017

ASSETS

Current Assets

Cash and cash equivalents (Notes 5 and 17)	P2,642,543,070	P1,530,515,081
Trade and other receivables (Notes 6 and 27)	1,396,772,534	1,367,123,294
Real estate inventories (Note 7)	5,027,949,483	6,245,233,233
Other current assets (Note 8)	1,588,874,489	1,500,155,268
Total Current Assets	10,656,139,576	10,643,026,876

Noncurrent Assets

Receivables - net of current portion (Note 6)	294,717,675	766,796,299
Investment properties (Note 9)	18,994,172,443	16,591,639,160
Property and equipment (Note 10)	954,837,653	986,614,976
Deferred income tax assets - net (Note 24)	33,596,435	31,068,838
Other noncurrent assets (Note 11)	541,712,684	711,745,790
Total Noncurrent Assets	20,819,036,890	19,087,865,063

TOTAL ASSETS

P31,475,176,466 P29,730,891,939

LIABILITIES AND EQUITY

Current Liabilities

Trade and other payables (Note 12)	P3,436,252,119	P3,313,187,486
Customers' deposits (Note 13)	1,115,106,227	987,861,644
Current portion of:		
Loans payable (Notes 14 and 17)	737,816,725	384,080,504
Payables to landowners (Notes 15 and 17)	499,926,349	52,692,924
Deposits and other current liabilities (Note 16)	312,487,297	154,618,346
Total Current Liabilities	6,101,588,717	4,892,440,904

Noncurrent Liabilities

Loans payable - net of current portion (Notes 14 and 17)	6,453,148,621	5,696,065,670
Payables to landowners - net of current portion (Notes 15 and 17)	1,384,949,047	1,884,875,396
Deferred income tax liabilities - net (Note 24)	—	5,145,211
Other noncurrent liabilities (Notes 16 and 23)	386,689,535	562,279,316
Total Noncurrent Liabilities	8,224,787,203	8,148,365,593
Total Liabilities	14,326,375,920	13,040,806,497

Equity (Note 25)

Capital stock - P1 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)	89,546,558	51,413,648
Retained earnings	3,129,581,453	2,708,999,259
Treasury shares	(7,955)	(7,955)
Total Equity	17,148,800,546	16,690,085,442

TOTAL LIABILITIES AND EQUITY

P31,475,176,466 P29,730,891,939

See accompanying Notes to Consolidated Financial Statements.



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

Years Ended December 31

	2018	2017	2016
REVENUE			
Real estate sales	P1,704,010,551	P845,052,331	P1,552,720,657
Rental income (Notes 9 and 27)	1,494,724,468	1,388,010,270	1,278,447,201
Rooms and other operated departments	93,245,771	85,112,175	-
	3,291,980,790	2,318,174,776	2,831,167,858
COSTS AND EXPENSES			
Cost of real estate sales (Note 7)	1,209,101,401	500,135,050	1,089,026,269
Cost of rental income (Notes 9 and 10)	373,553,433	308,447,086	253,830,432
Cost of rooms and other operated departments (Note 21)	65,760,756	50,618,202	-
Selling expenses (Note 19)	101,162,087	46,596,858	52,847,543
General and administrative expenses (Note 20)	780,879,312	684,931,311	600,690,178
	2,530,456,989	1,590,728,507	1,996,394,422
OTHER INCOME (CHARGES) - Net			
Finance charges (Note 18)	(291,172,496)	(355,119,704)	(357,699,806)
Interest income (Note 18)	57,320,230	44,556,155	55,871,003
Foreign exchange gains (losses) - net	4,756,636	(148,549)	4,250,839
Other income - net (Note 22)	136,021,890	95,364,084	64,073,508
	(93,073,740)	(215,348,014)	(233,504,456)
INCOME BEFORE INCOME TAX	668,450,061	512,098,255	601,268,980
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)			
Current	203,190,763	170,098,570	187,968,833
Deferred	(13,497,170)	(5,876,191)	23,791,351
	189,693,593	164,222,379	211,760,184
NET INCOME	P478,756,468	P347,875,876	P389,508,796
BASIC/DILUTED EARNINGS PER SHARE (Note 26)	P0.0837	P0.0608	P0.0681

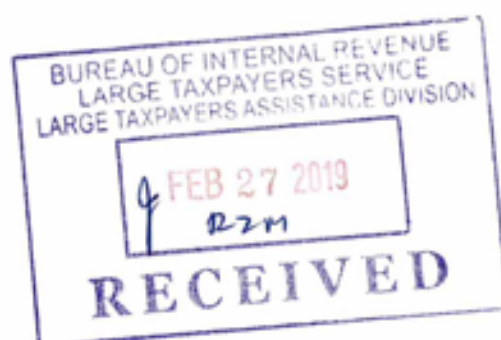
See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2018	2017	2016
NET INCOME	P478,756,468	P347,875,876	P389,508,796
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)	54,475,585	17,292,383	16,754,251
Deferred income tax effect	(16,342,675)	(5,187,715)	(5,026,275)
	38,132,910	12,104,668	11,727,976
TOTAL COMPREHENSIVE INCOME	P516,889,378	P359,980,544	P401,236,772

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, 2018, 2017 AND 2016

	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, 2015	P5,723,017,872	P8,206,662,618	P27,581,004	P1,971,614,587	(P7,955)	P15,928,868,126
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

BALANCES AS AT JANUARY 1, 2018, AS PREVIOUSLY

REPORTED

Effect of adoption of:

PFERS 15, Revenue from Contracts with Customers (Note 2)

PFERS 9, Financial Instruments (Note 2)

BALANCES AS AT JANUARY 1, 2018, AS ADJUSTED

Net income for the year

Other comprehensive income

Total comprehensive income

BALANCES AS AT DECEMBER 31, 2018

P5,723,017,872	P8,206,662,618	P51,413,648	P2,708,999,259	(P7,955)	P16,690,085,442
-	-	-	(27,963,691)	-	(27,963,691)
-	-	-	(30,210,583)	-	(30,210,583)
5,723,017,872	8,206,662,618	51,413,648	2,650,824,985	(7,955)	16,631,911,168
-	-	-	478,756,468	-	478,756,468
-	-	38,132,910	-	-	38,132,910
-	-	38,132,910	478,756,468	-	516,889,378
P5,723,017,872	P8,206,662,618	P89,546,558	P3,129,581,453	(P7,955)	P17,148,800,546

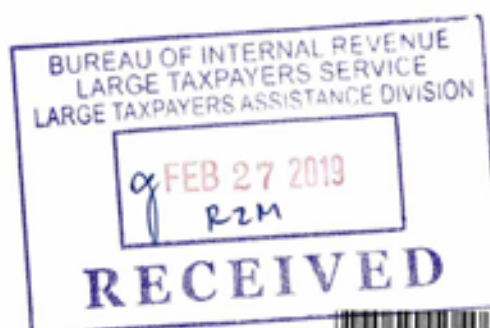
See accompanying Notes to Consolidated Financial Statements.



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

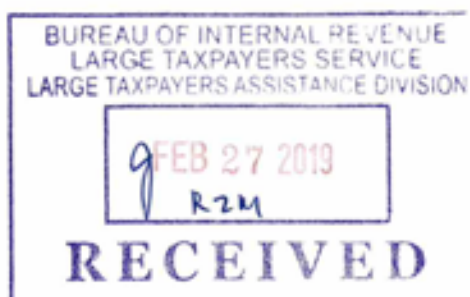
	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P668,450,061	P512,098,255	P601,268,980
Adjustments for:			
Depreciation and amortization (Notes 9, 10, 11 and 20)	312,968,180	254,904,052	163,644,403
Interest expense (Notes 14 and 18)	290,711,789	354,794,059	356,898,019
Interest income (Notes 6 and 18)	(57,320,230)	(44,556,155)	(55,871,003)
Provision for expected credit losses (Notes 20 and 28)	45,479,362	—	—
Retirement benefits cost (Notes 21 and 23)	17,987,399	29,415,972	25,931,585
Unrealized foreign exchange losses (gains) - net	(4,756,636)	145,849	4,704,525
Loss (gain) on retirement and disposal of property and equipment (Note 10)	(775,687)	(751,467)	165,955
Operating income before working capital changes	1,272,744,238	1,106,050,565	1,096,742,464
Decrease (increase) in:			
Trade and other receivables	328,637,434	484,258,398	746,863,419
Real estate inventories	1,001,733,733	(229,211,670)	(744,545,127)
Other assets	175,781,644	27,777,471	(635,722,889)
Increase (decrease) in:			
Trade and other payables	106,485,677	(50,955,518)	(142,244,837)
Payables to related parties	—	(66,945,783)	(4,455,717)
Customers' deposits	51,183,377	95,575,240	(534,362,633)
Deposits and other liabilities	23,067,127	8,004,443	45,561,181
Cash generated from (used in) operations	2,959,633,230	1,374,553,146	(172,164,139)
Interest paid	(398,908,083)	(419,251,267)	(369,794,968)
Income taxes paid, including final tax and creditable withholding taxes	(310,455,852)	(241,778,265)	(232,223,435)
Interest received	65,503,966	60,694,765	77,997,497
Net cash from (used in) operating activities	2,315,773,261	774,218,379	(696,185,045)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investment properties (Notes 9 and 32)	(2,223,440,917)	(1,668,306,158)	(1,077,970,811)
Property and equipment (Notes 10 and 32)	(33,659,748)	(28,785,245)	(29,264,974)
Software (Note 11)	(411,260)	(1,585,550)	(8,743,189)
Proceeds from disposal of property and equipment	—	928,750	—
Net cash used in investing activities	(2,257,511,925)	(1,697,748,203)	(1,115,978,974)

(Forward)



	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Note 14)	P1,500,000,000	P2,490,000,000	P3,500,000,000
Payments of:			
Loans payable (Notes 14 and 32)	(387,047,059)	(470,588,235)	(610,584,900)
Payable to landowners (Notes 15 and 32)	(52,692,924)	(1,825,273,348)	(875,695,892)
Transaction costs (Notes 15 and 17)	(11,250,000)	(12,450,000)	(17,500,000)
Net cash from financing activities	1,049,010,017	181,688,417	1,996,219,208
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	4,756,636	(145,849)	(4,704,525)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,112,027,989	(741,987,256)	179,350,664
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,530,515,081	2,272,502,337	2,093,151,673
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 5 and 32)	P2,642,543,070	P1,530,515,081	P2,272,502,337

See accompanying Notes to Consolidated Financial Statements.



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

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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 1,600 million 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 ₱4,000 million (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.



Upon the 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, 2018 and 2017, 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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were authorized for issuance by the BOD on February 11, 2019.

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 Parent Company and its subsidiaries (collectively referred to as the Group) have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) as issued by the Financial Reporting Standards Council (FRSC), which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 and 3-2019 as discussed in the Change in Accounting Policies section below. 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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018. 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, 2018. 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 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*



- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- PFRS 15, *Revenue from Contracts with Customers*, and PFRS 9, *Financial Instruments*

The Group applied PFRS 15 and PFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18 *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

On February 14, 2018, the Philippines Interpretation Committee (PIC) issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 29, 2018 and February 8, 2019, the Philippine Securities and Exchange Commission (SEC) issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three (3) years:

- a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E,
- b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D, and;
- c. Accounting for Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H.

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: PFRS 15 - Accounting for Cancellation of Real Estate Sales was also deferred.

The SEC Memorandum Circulars also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

- a. The accounting policies applied;
- b. Discussion of the deferral of the subject implementation issues in the PIC Q&A;
- c. Qualitative discussion of the impact in the financial statements had the concerned application guideline in the PIC Q&A been adopted; and
- d. Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

Except for the accounting for CUSA charges discussed under PIC Q&A No. 2018-12-H, which applies to leasing transactions, the above deferral will only be applicable for real estate sales transactions.



Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the Philippine SEC will later prescribe.

The Group availed of the deferral of adoption of the following specific provisions of PIC Q&A. Had these provisions been adopted, it would have the following impact on the consolidated financial statements:

- a. The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using the effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.
- b. The Group is acting as a principal for the provision of air-conditioning services, common usage services and administration and handling services. This would have resulted to the gross presentation of the related revenue and the related costs and expenses. Currently, the related revenue is presented net of costs and expenses. These would not result to any adjustment in the retained earnings as of January 1, 2018 and net income for the year ended December 31, 2018.

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under the modified retrospective method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard only to those contracts not completed as at January 1, 2018. The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related Interpretations.

The effects of adopting PFRS 15 as at January 1, 2018 are as follows (in millions):

	As previously reported at December 31, 2017	References	Adjustment	As adjusted at January 1, 2018
Real estate inventories	₱6,245.2	a	₱67.4	₱6,312.6
Trade and other receivables*	1,367.1	a	(22.1)	1,345.0
Deferred income tax assets - net	31.1	b	1.7	32.8
Trade and other payables	3,313.2	a, b	(1.1)	3,312.1
Customers' deposits	987.9	a	76.1	1,064.0
Retained earnings	2,709.0	a, b	(28.0)	2,681.0

*Including noncurrent portion of receivables.



Set out below are the amounts by which each consolidated financial statement line item is affected as at and for the year ended December 31, 2018 as a result of the adoption of PFRS 15. The adoption of PFRS 15 did not have a material impact on other comprehensive income (OCI) or the Group's operating, investing and financing cash flows. The first column shows amounts prepared under PFRS 15 and the second column shows what the amounts would have been had PFRS 15 not been adopted:

Consolidated Statement of Income for the year ended December 31, 2018 (in millions):

	References	Amounts prepared under		Increase/ (Decrease)
		PFRS 15	Previous PFRS	
Real estate sales	a	₱1,704.0	₱1,745.8	(₱41.8)
Cost real estate sales	a	1,209.1	1,232.1	(23.0)
Selling expenses	b	101.2	90.8	10.4
Income before income tax	a, b	668.5	697.7	(29.2)
Benefit from income tax - deferred	b	13.5	10.3	3.2
Net income	a, b	478.8	504.8	(26.0)

Consolidated Statement of Financial Position as at December 31, 2018 (in millions):

	References	Amounts prepared under		Increase/ (Decrease)
		PFRS 15	Previous PFRS	
Real estate inventories	a	₱5,027.9	₱4,937.9	₱90.0
Trade and other receivables*	a	1,691.5	1,727.5	(36.0)
Other current assets	b	1,588.9	1,588.8	0.1
Deferred income tax assets - net	b	33.6	28.7	4.9
Trade and other payables	a, b	3,436.3	3,430.7	5.6
Customers' deposits	a	1,115.1	1,007.7	107.4
Retained earnings	a, b	3,129.6	3,183.6	(54.0)

*Including noncurrent portion of receivables.

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of income for the year ended December 31, 2018 are described below:

- a) The Group has determined that only a signed contract to sell will qualify as a contract under PFRS 15. Before the adoption of PFRS 15, the Group considered reservation agreements, including collections, as sufficient bases in recognizing revenue.

The above resulted to (1) decrease in trade and other receivables of ₱22.1 million, trade and other payables of ₱6.9 million and retained earnings of ₱23.9 million; and (2) an increase in real estate inventories of ₱67.4 million and customers' deposits of ₱76.1 million as of January 1, 2018.

As at December 31, 2018, PFRS 15 resulted to a (1) decrease in trade and other receivables of ₱36.0 million, trade and other payables of ₱10.7 million and retained earnings of ₱42.7 million; and (2) an increase in real estate inventories of ₱90.0 million and customers' deposits of ₱107.4 million.

- b) The Group has sales agents who are responsible for the marketing and sale of its real estate projects. These real estate sales agents typically receive sales commission equivalent to a certain percentage of the total contract price paid based on milestone payments by the customers. These are recorded as contract cost and are fully accrued based on the total expected payment. Contract



cost is amortized using the percentage of completion method consistent with the measure of progress for revenue recognition. Before PFRS 15, the sales commissions are expensed as paid and there is no accrual for the unpaid portion of the total expected payment upon entering into the contract.

The above resulted to (1) increase in trade and other payables of ₱5.8 million and deferred income tax assets of ₱1.7 million; and (2) decrease in retained earnings of ₱4.1 million as of January 1, 2018.

As at December 31, 2018, PFRS 15 resulted to (1) increase in trade and other payables of ₱16.3 million; and (2) decrease in other current assets of ₱0.1 million, deferred income tax assets of ₱4.9 million and retained earnings of ₱11.3 million.

PFRS 9, Financial Instruments

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

The Group applied PFRS 9 using the modified retrospective approach, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings.

The effect of adopting PFRS 9 as at January 1, 2018 are as follows (in millions):

	As previously reported at December 31, 2017	References	Adjustment	As adjusted at January 1, 2018
Trade and other receivables*	₱2,133.9	a, b	(₱38.1)	₱2,095.8
Refundable deposits	159.3	a	(5.1)	154.2
Retained earnings	2,709.0	a, b	(30.2)	2,678.8

*Including noncurrent portion of receivables.

The nature of these adjustments is described below:

a. Classification and measurement

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

The assessment of the Group's business model was made as of the date of initial application, January 1, 2018, and then applied prospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.



The changes in the classification of the Group's financial assets pertain to cash and cash equivalents, trade and other receivables and refundable deposits (included as part of other noncurrent assets) previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortized cost beginning January 1, 2018.

b. Impairment

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to record an allowance for impairment losses for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade and other receivables and refundable deposits, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash and cash equivalents, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Moody's Rating Scale to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

Set out below is the reconciliation of the ending impairment allowances in accordance with PAS 39 to the opening loss allowances determined in accordance with PFRS 9 (in millions):

	Allowance for credit loss under PAS 39 as at December 31, 2017	Remeasurement	ECL under PFRS 9 as at January 1, 2018
Loans and receivables under PAS 39/Financial assets at amortized cost under PFRS 9	₱—	₱43.2	₱43.2

c. Other adjustments

In addition to the adjustments described above, upon adoption of PFRS 9, other items of the consolidated financial statements such as deferred income tax assets, provision for income tax expense - deferred and retained earnings were adjusted as necessary.



PIC Q&A on Advances to Contractors and PIC Q&A on Land Classification

The Group adopted PIC Q&A 2018-11, Classification of Land by Real Estate Developer and PIC Q&A 2018-15, PAS 1 - Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current starting January 1, 2018. The impact of adoption is applied retrospectively which resulted to the following reclassifications in the consolidated statement of financial position at January 1, 2018 (in millions):

	Current Assets	Noncurrent Assets
Advances to contractors and suppliers	(P533.6)	P533.6

Advances to contractors and suppliers in relation to the construction of investment properties previously presented under current assets were reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based on the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (i.e., real estate inventories, investment properties and property and equipment).

Future Changes in Accounting Policies

The following are the new and revised standards and interpretations that will become effective subsequent to December 31, 2018. Unless otherwise indicated, 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, 2019

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application 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. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

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

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.



The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

These amendments are not expected to have any significant impact on the consolidated 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, *Income Taxes*, 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.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.



These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

The Group is currently assessing the potential impact of these amendments.

Effective beginning on or after January 1, 2020

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

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

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

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

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

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

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



Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

PFRS 17 will not have any impact on the consolidated financial statements.

Deferred effectivity

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

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. 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 2018 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 - initial recognition and subsequent measurement effective January 1, 2018

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

As of December 31, 2018, the Group's financial assets pertain to financial assets at amortized cost (debt instrument).



Subsequent measurement

The Group measures financial assets at amortized cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash in banks and cash equivalents, trade and other receivables and refundable deposits.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).



For trade and other receivables and refundable deposits, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities pertain to loans and borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance charges in the consolidated statement of income.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

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 there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.



Financial Instruments - initial recognition and subsequent measurement prior to January 1, 2018

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, 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 the 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 the 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.

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, 2018 and 2017, 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.

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 and Suppliers

Advances to contractors pertain to advance payments made to contractors at the start of each contract packages while advances to suppliers pertain mainly to the advance payments for the purchase of material and supplies. Advances to contractors is recouped every progress billing payment based on the percentage of accomplishment of each contract package. Advances to contractors related to the construction of the Group's investment properties are classified as part of noncurrent assets while advances to contractors related to construction of real estate inventories are classified as current assets.

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
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 effective January 1, 2018

The Group derives its real estate sales from sale of residential lots and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.



In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on the physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. Based on the monthly project accomplishment report approved by the site project manager which integrates the surveys of performance to date of the construction activities.

Real estate sales prior to January 1, 2018

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 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.

Costs to obtain contract effective January 1, 2018

The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Selling expenses" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.



Commissions prior to January 1, 2018

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

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" presented as part of "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.

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

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (b) assessment of the probability that the entity will collect the consideration from the buyer; (c) determination of the transaction price; (d) application of the output/input method as the measure of progress in determining real estate revenue; (e) determination of the actual costs incurred as cost of sales; and (f) recognition of cost to obtain a contract.

a) Existence of a contract

The Group's primary document for a contract with a customer is a signed contract to sell. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history customer, age and pricing of the property. Management regularly



evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

b) Revenue recognition method and measure of progress

The Group concluded that revenue for real estate sales is to be recognized over time because (a) the Group's performance does not create an asset with an alternative use and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date.

The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customer.

c) Identifying performance obligation

The Group has various contracts to sell covering residential lots and condominium units. The Group concluded that there is one performance obligation in each of these contracts because: (i) for residential lots, the developer integrates the plots it sells with the associated infrastructure to be able to transfer the serviced land promised in the contract; (ii) for the contract covering condominium units, the developer has the obligation to deliver the house or condominium unit duly constructed on a specific lot and fully integrated into the serviced land in accordance with the approved plan. Included also in this performance obligation is the Group's service to transfer the title of the real estate unit to the customer.

Provision for expected credit losses of cash and cash equivalents, trade and other receivables and refundable deposits

The Group uses a provision matrix to calculate ECLs for cash and cash equivalents, trade and other receivables and refundable deposits. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, property collaterals and coverage by letters of credit and other forms of credit insurance).

The assessment of the correlation between historical observed default rates, forecast economic conditions (i.e., gross domestic product and inflation rate) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables and refundable deposits is disclosed in Note 2.

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 ₱1,494.7 million, ₱1,388.0 million, and ₱1,278.4 million in 2018, 2017 and 2016, 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 ₱27.4 million in 2018 and ₱25.9 million in 2017 and 2016 (see Notes 20 and 27). Additional rental expense amounting to ₱41.9 million, ₱39.4 million and ₱39.4 million recognized in 2018, 2017 and 2016, 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 ₱18,994.2 million and ₱5,027.9 million as of December 31, 2018 and ₱16,591.6 million and ₱6,245.2 million as of December 31, 2017, 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 ₱18,994.2 million and ₱954.8 million as of December 31, 2018 and ₱16,591.6 million and ₱986.6 million as of December 31, 2017, 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 2018, 2017 and 2016.

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 adopted the new revenue recognition standard, PFRS 15, under the modified retrospective approach.

Real estate sales and cost of real estate sales amounted to ₱1,704.0 million and ₱1,209.1 million in 2018, ₱845.1 million and ₱500.1 million in 2017, and ₱1,552.7 million and ₱1,089.0 million in 2016, respectively.

Estimation of allowance for expected credit losses of debt instruments at amortized cost

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, 2018, the Group recognized allowance for impairment on its contracts receivable, lease receivable and refundable deposits amounting to ₱76.8 million, ₱5.8 million and ₱6.0 million, respectively (see Notes 6 and 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, 2018 and 2017, real estate inventories, which are carried at cost, amounted to ₱5,027.9 million and ₱6,245.2 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 2018 and 2017. The carrying values of the Group's investment properties (excluding land and construction in progress), property and equipment and software amounted to ₱6,454.5 million, ₱954.8 million and ₱4.7 million, respectively, as of December 31, 2018 and ₱5,651.4 million, ₱986.6 million and ₱12.4 million, respectively, as of December 31, 2017 (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 ₱18,994.2 million, ₱954.8 million and ₱4.7 million, respectively, as of December 31, 2018 and ₱16,591.6 million, ₱986.6 million and ₱12.4 million, respectively, as of December 31, 2017 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, 2018 and 2017, retirement benefits liability amounted to ₱31.8 million and ₱68.2 million, respectively. Retirement benefits cost amounted to ₱18.0 million, ₱29.4 million and ₱25.9 million in 2018, 2017 and 2016, 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, 2018 and 2017, the Group recognized deferred income tax assets amounting to ₱197.9 million and ₱145.7 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 is 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.

2018

	Residential Developments	Leasing Activities	Serviced Apartments	Unallocated Corporate Balance	Consolidated
Revenue from external customers	₱1,704,010,551	₱1,494,724,468	₱93,245,771	₱-	₱3,291,980,790
Direct costs	(1,209,101,401)	(373,553,433)	(65,760,756)	-	(1,648,415,590)
Gross profit	494,909,150	1,121,171,035	27,485,015	-	1,643,565,200
Selling, general and administrative expenses	(85,455,109)	-	-	(796,586,290)	(882,041,399)
Operating income	409,454,041	1,121,171,035	27,485,015	(796,586,290)	761,523,801

(Forward)



	Residential Developments	Leasing Activities	Serviced Apartments	Unallocated Corporate Balance	Consolidated
Interest income	P14,323,845	P-	P-	P42,996,385	P57,320,230
Other income (charges) - net	(79,591,452)	158,982,530	6,907,990	54,479,458	140,778,526
Finance charges	-	-	-	(291,172,496)	(291,172,496)
Provision for income tax	-	-	-	(189,693,593)	(189,693,593)
Segment profit	P344,186,434	P1,280,153,565	P34,393,005	(P1,179,976,536)	P478,756,468
Other information					
Segment assets	P7,237,760,313	P10,471,730,968	P901,805,312	P12,830,283,438	P31,441,580,031
Deferred income tax assets - net	-	-	-	33,596,435	33,596,435
Total segment assets	P7,237,760,313	P10,471,730,968	P901,805,312	P12,863,879,873	P31,475,176,466
Segment liabilities	P2,667,485,585	P1,059,603,144	P7,769,427	P10,591,517,764	P14,326,375,920
Segment additions to property and equipment, investment properties and software					
	P34,793,143	P2,358,291,442	P71,429	P-	P2,393,156,014
Depreciation and amortization	37,213,019	222,311,452	53,443,709	-	312,968,180

2017

	Residential Developments	Leasing Activities	Serviced Apartments	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P845,052,331	P1,388,010,270	P85,112,175	P-	P2,318,174,776
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	P232,849,075	P1,230,179,467	P38,513,174	(P1,153,665,840)	P347,875,876
Other information					
Segment assets	P9,394,874,795	P8,941,166,326	P1,018,040,136	P10,345,741,844	P29,699,823,101
Deferred income tax assets - net	-	-	-	31,068,838	31,068,838
Total segment assets	P9,394,874,795	P8,941,166,326	P1,018,040,136	P10,376,810,682	P29,730,891,939
Segment liabilities	P2,316,179,530	P2,576,772,823	P3,640,982	P8,144,213,162	P13,040,806,497
Segment additions to property and equipment, investment properties and software					
	P30,330,976	P1,740,087,435	P-	P-	P1,770,418,411
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	₱1,552,720,657	₱1,278,447,201	₱-	₱2,831,167,858
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	₱287,938,573	₱1,194,300,779	(₱1,092,730,556)	₱389,508,796
Other information				
Segment assets	₱9,884,904,852	₱4,147,394,409	₱15,121,417,315	₱29,153,716,576
Deferred income tax assets - net	-	-	25,235,151	25,235,151
Total segment assets	₱9,884,904,852	₱4,147,394,409	₱15,146,652,466	₱29,178,951,727
Segment liabilities	₱2,121,650,583	₱785,123,915	₱9,942,072,331	₱12,848,846,829
Segment additions to property and equipment, investment properties and software	₱38,008,163	₱2,407,970,812	₱-	₱2,445,978,975
Depreciation and amortization	29,464,095	134,180,308	-	163,644,403

5. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	₱675,579,055	₱657,029,484
Cash equivalents	1,966,964,015	873,485,597
	₱2,642,543,070	₱1,530,515,081

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 0.78% to 6.50% in 2018 and 0.25% to 2.50% in 2017.

Interest income from cash and cash equivalents amounted to ₱43.0 million, ₱28.1 million and ₱14.2 million in 2018, 2017 and 2016, respectively (see Note 18).

6. Trade and Other Receivables

	2018	2017
Contracts receivables	₱1,071,334,642	₱1,460,833,618
Receivables from buyers	454,019,067	474,360,534
Lease receivables (Note 27)	45,816,320	27,759,771
Receivables from tenants	41,566,610	32,660,091
Others	161,414,405	138,305,579
	1,774,151,044	2,133,919,593
Less allowance for expected credit losses (Notes 2 and 28)	82,660,835	-
	1,691,490,209	2,133,919,593
Less noncurrent portion of contracts receivables	294,717,675	766,796,299
	₱1,396,772,534	₱1,367,123,294



- 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 ₱14.3 million, ₱16.5 million and ₱41.7 million in 2018, 2017 and 2016, respectively (see Note 18).

- b. Receivables from buyers include receivables relating to registration of titles, turnover fees and advances paid for on behalf of buyers 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

	2018	2017
Condominium and residential units	₱266,988,061	₱686,028,271
Land held for development	217,541,962	1,099,584,233
Subdivision projects under development	4,543,419,460	4,459,620,729
	₱5,027,949,483	₱6,245,233,233

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

	2018	2017
Beginning of year	₱6,245,233,233	₱6,552,695,246
Development costs incurred (Notes 15 and 17)	394,854,818	729,346,720
Transfer to investment properties and property and equipment (Note 9)	(282,917,167)	(536,673,683)
Disposals and others	(1,329,221,401)	(500,135,050)
End of year	₱5,027,949,483	₱6,245,233,233

- b. In 2009, the Group acquired parcels of land through an asset-for-share swap agreement. The land, with a total appraised value of ₱3,953.2 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 ₱658.9 million, was recognized as investment property in 2009. The remaining portion of the land, with an allocated cost of ₱3,294.3 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 ₱2,187.4 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 ₱4.0 billion, thereby, resulting to an increase in the recorded value of the land by ₱46.8 million.

- c. Real estate inventories recognized as part of cost of real estate sales amounted to ₱1,209.1 million, ₱500.1 million and ₱1,089.0 million in 2018, 2017 and 2016, respectively.



8. Other Current Assets

	2018	2017
Input VAT	₱998,921,534	₱945,558,318
Creditable withholding taxes	272,486,752	165,221,663
Deferred rent assets (Note 27)	170,161,556	184,628,373
Advances to contractors and suppliers (Note 17)	131,237,469	196,456,812
Prepayments	16,067,178	8,290,102
	₱1,588,874,489	₱1,500,155,268

- 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.
- 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.
- Deferred rent asset is used to record rental income on a straight-line basis over the lease term.

9. Investment Properties

As of December 31, 2018:

	Land	Land Improvements and Buildings	Condominium Units	Construction in Progress	Total
Cost					
Beginning of year	₱8,209,554,290	₱5,753,420,111	₱773,235,743	₱2,730,651,530	₱17,466,861,674
Additions	58,148,849	12,236,129	23,651,032	2,264,255,432	2,358,291,442
Reclassification and others	2,220,000	—	844,492,960	(846,712,960)	—
Transfer from real estate inventories (Note 7)	67,972,600	49,009,750	134,553,523	31,381,294	282,917,167
Transfer to property and equipment (Note 10)	—	—	(16,363,874)	—	(16,363,874)
End of year	8,337,895,739	5,814,665,990	1,759,569,384	4,179,575,296	20,091,706,409
Accumulated Depreciation					
Beginning of year	—	845,360,703	29,861,811	—	875,222,514
Depreciation for the year	—	165,963,159	56,348,293	—	222,311,452
End of year	—	1,011,323,862	86,210,104	—	1,097,533,966
Net Book Values	₱8,337,895,739	₱4,803,342,128	₱1,673,359,280	₱4,179,575,296	₱18,994,172,443



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	—	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

- In 2018 and 2017, the Group reclassified the costs of land previously recognized as real estate inventory amounting to ₱68.0 million and ₱494.2 million, respectively, to investment property. Management plans to develop thereon additional buildings to be held for lease (see Note 7).
- In 2018 and 2017, the Parent Company reclassified the cost of condominium units, which was previously recognized as real estate inventory totaling to ₱31.4 million and ₱107.0 million, respectively, to investment property in view of management's plan to lease the units (see Note 7).
- In 2018 and 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 ₱16.4 million and ₱973.7 million, respectively (see Note 10).
- Rental income and direct operating expenses arising from the investment properties amounted to ₱1,494.7 million and ₱373.6 million in 2018, and ₱1,388.0 million and ₱308.4 million in 2017 and ₱1,278.4 million and ₱253.8 million in 2016, respectively.

Depreciation of investment properties amounting to ₱220.1 million, ₱176.4 million and ₱134.1 million were recognized as part of cost of rental income in 2018, 2017 and 2016, respectively.

- Borrowing costs capitalized as cost of investment properties in 2018 and 2017 amounted to ₱134.9 million and ₱71.8 million, respectively (see Notes 15 and 18).
- 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	₱24,680,686,000	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
		₱33,459,693,245	

As of December 31, 2018 and 2017, management believes that the estimated fair value of the building for lease valued on October 13, 2017 remain the same since there were no significant changes within the area where the investment properties are located.



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, 2018:

	Serviced Apartments	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Beginning of year	₱973,713,374	₱62,630,576	₱175,349,712	₱23,306,491	₱1,235,000,153
Additions	71,429	9,989,530	24,392,353	—	34,453,312
Transfer from investment properties (Note 9)	16,363,874	—	—	—	16,363,874
Retirement/Disposal	—	(2,716,351)	—	—	(2,716,351)
End of year	990,148,677	69,903,755	199,742,065	23,306,491	1,283,100,988
Accumulated Depreciation and Amortization					
Beginning of year	41,114,915	47,045,224	139,292,236	20,932,802	248,385,177
Depreciation and amortization (Note 20)	53,443,709	6,414,334	21,571,942	1,146,647	82,576,632
Retirement/Disposal	—	(2,698,474)	—	—	(2,698,474)
End of year	94,558,624	50,761,084	160,864,178	22,079,449	328,263,335
Net Book Values	₱895,590,053	₱19,142,671	₱38,877,887	₱1,227,042	₱954,837,653

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



The Group has fully depreciated property and equipment that are still in use with cost of ₱182.7 million and ₱164.0 million as of December 31, 2018 and 2017, respectively.

In 2018 and 2017, the Group recognized as part of "Cost of rental income" the depreciation and amortization of equipment and leasehold improvements used in leasing activities amounting to ₱12.5 million and ₱6.6 million, respectively.

11. Other Noncurrent Assets

	2018	2017
Advances to contractors and suppliers (Note 2)	₱359,309,024	₱533,604,780
Refundable deposits	170,287,640	159,329,429
Software	4,682,619	12,351,455
Deferred input VAT	4,533,401	3,560,126
Others	2,900,000	2,900,000
	₱541,712,684	₱711,745,790

- a. 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.
- b. The rollforward analysis of the Group's software follows:

	2018	2017
Cost		
Beginning of year	₱63,104,947	₱61,580,111
Additions	411,260	1,524,836
End of year	63,516,207	63,104,947
Accumulated Amortization		
Beginning of year	50,753,492	40,613,013
Amortization (Note 20)	8,080,096	10,140,479
End of year	58,833,588	50,753,492
Net Book Values	₱4,682,619	₱12,351,455

In 2018 and 2017, the Group recognized as part of "Cost of rental income" the amortization of software used in leasing activities amounting to ₱0.36 million and ₱0.30 million, respectively.

12. Trade and Other Payables

	2018	2017
Accounts payable	₱865,030,958	₱626,808,726
Retentions payable	746,279,574	608,490,134
Taxes payable	255,908,560	319,597,403

(Forward)



	2018	2017
Accrued expenses:		
Real estate development costs	₱1,097,298,701	₱1,335,834,778
Rentals	202,783,401	175,103,529
Interest	93,032,652	75,494,652
Utilities, outside services and others	175,918,273	171,858,264
	₱3,436,252,119	₱3,313,187,486

- 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, 2018 and 2017, customers' deposits amounted to ₱1,115.1 million and ₱987.9 million, respectively.

14. Loans Payable

	2018	2017
Bank loans	₱7,220,600,000	₱6,107,647,059
Less unamortized transaction costs	29,634,654	27,500,885
	7,190,965,346	6,080,146,174
Less current portion	737,816,725	384,080,504
Noncurrent portion	₱6,453,148,621	₱5,696,065,670

Bank loans

- a. In 2018, Parent Company entered into an unsecured term loan agreement with Bank of the Philippine Islands (BPI) amounting to ₱5,000.0 million to finance the construction of the Parent Company's projects. On July 31, 2018, ₱500.0 million was initially drawn and an additional ₱1,000.0 million on September 26, 2018. The term loan with BPI has a nominal rate of 6.8% and 7.9% for the first and second drawdown, respectively. Principal repayments will commence three years from the date of initial borrowing, while interest payments are due quarterly.
- b. In 2016, the Parent Company entered into a loan agreement with Philippine National Bank (PNB) amounting to ₱4,500.0 million secured by a certain parcel of land located in Sta. Rosa, Laguna and an office building in Ortigas Avenue, Quezon City. In the same year, the Parent Company have availed of the loan in two drawdowns totaling ₱2,000.0 million. Last 2017, the Parent Company



had a third drawdown of the loan with the amount of ₱2,490.0 million, bringing the total cash received through PNB loan to ₱4,490.0 million. The term loans with PNB bears nominal interest rate of 5.0% and will mature on May 31, 2023. Principal repayments will commence two years from the date of initial drawdown and due quarterly while interest payments is due quarterly starting August 31, 2017.

- c. The Parent Company entered into an unsecured term loan agreement with Asia United Bank (AUB), in 2016, amounting to ₱1,500.0 million to finance the construction of the Parent Company's projects. The term loans with AUB bear nominal interest rate of 5.0% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and due quarterly while interest payments are due quarterly starting December 28, 2016.
- d. 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. 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. The term loan bears a nominal interest rate of 5.53%. On October 28, 2013, the Parent Company and BDO agreed to the new interest rate of 4.75%. The Parent Company settled the outstanding loans upon their maturity in January 2018.
- e. The Parent Company is required to maintain certain financial ratios and comply with non-financial covenants for each bank loan. As at December 31, 2018 and 2017, the Parent Company is in compliance with the financial and non-financial loan covenants.

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 is recognized as part of "Finance charges" account in the consolidated statements of income.

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

	2018	2017
Balances at beginning of year	₱27,500,885	₱17,286,072
Additions	11,250,000	12,450,000
Amortization of transaction costs	(9,116,231)	(2,235,187)
Balances at end of year	₱29,634,654	₱27,500,885

Interest expense related to loans payable amounted to ₱224.7 million, ₱200.5 million and ₱117.4 million, net of capitalized portion of ₱121.3 million, ₱58.3 million and nil in 2018, 2017 and 2016, respectively (see Notes 9 and 18).

15. Payables to Landowners

	Note	2018	2017
Five-year 6%-promissory note, quarterly installment	a	₱379,684,538	₱432,377,462
Three-year floating rate promissory note, quarterly installment	b	1,061,190,858	1,061,190,858
3.95%-promissory note (Note 17)	c	444,000,000	444,000,000
		1,884,875,396	1,937,568,320
Less current portion		499,926,349	52,692,924
Noncurrent portion		₱1,384,949,047	₱1,884,875,396



- a. In December 2015, the Parent Company executed contracts to sell, subject to interest rate of 6%, to PNB, a related party, amounting to ₱754.0 million in relation to its purchase of parcels of land located in 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, 2018 and 2017, outstanding payables amounted to ₱379.7 million and ₱432.4 million, respectively (see Note 17).
- b. 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 their purchased parcels of 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.
- c. In 2017, the Parent Company reclassified the outstanding notes payable to Asia Brewery, Incorporated (ABI) amounting to ₱444.0 million from "Due to related parties" to "Payable to landowners" (see Note 17).
- d. In February 2016, the Parent Company executed a contract to sell, subject to interest rate of 6%, to PNB, 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 fifth year from the execution of the contract. In 2017, the outstanding payable was fully paid by the Parent Company.
- e. Interest expense related to payables to landowners amounted to ₱65.9 million, ₱100.5 million and ₱180.7 million, net of capitalized portion of ₱13.5 million in 2018 and 2017 and nil in 2016 (see Notes 9 and 18).

16. Other Noncurrent Liabilities

	2018	2017
Security deposits	₱506,007,156	₱452,371,808
Advance rentals	97,196,791	151,417,546
Deferred rental income	64,219,252	44,866,489
Retirement benefits liability (Note 23)	31,753,633	68,241,819
	699,176,832	716,897,662
Less current portion of:		
Security deposits	243,243,848	117,715,715
Advance rentals	69,243,449	36,902,631
	312,487,297	154,618,346
	₱386,689,535	₱562,279,316

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. Security deposits are initially recorded at fair value, which was obtained by discounting future cash flows using the applicable rates of similar types of instruments.

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 (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual. 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
		2018	2017	2018	2017	
Subsidiaries of LTG	Cash and cash equivalents	₱796,381,350	₱383,881,277	₱1,714,106,463	₱917,725,113	Deposits and placements; interest-bearing
	Payable to landowners	52,692,924	1,825,273,349	(379,684,538)	(432,377,462)	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	269,400,000	2,490,000,000	(4,220,600,000)	(4,490,000,000)	Secured; interest bearing
	Payables to related parties	-	66,945,783	-	-	Unsecured; interest bearing
Joint Venture of LTG	Contracts receivables	810,969,600	-	236,183,470	-	Non-interest bearing
Entities under Common Control	Payables to related parties	-	69,151,500	-	-	Management fee; non-interest bearing
	Retentions payable	-	-	(3,021,083)	(3,021,083)	Unsecured; non-interest bearing

As of December 31, 2018 and 2017, 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 an unsecured 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 payables amounting to ₱4,490.0 million and ₱4,220.6 million were recorded under "Loans payable" in the consolidated statements of financial position as of December 31, 2018 and 2017, respectively (see Note 14).



- In 2016 and 2015, the Parent Company purchased parcels of land from PNB for its future projects. The total price of the parcels of land amounted to ₱1,900.0 million and ₱1,394.0 million, respectively. Total outstanding payable amounting to ₱379.7 million and ₱432.4 million were recorded under “Payables to landowners” as of December 31, 2018 and 2017, 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, 2018 and 2017 (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 of ₱444.0 million with a 3.95% interest rate per annum. As of December 31, 2018, the outstanding balance is payable on demand.
- 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 included in “Outside services” amounted to ₱17.5 million in 2018 and ₱21.0 million in 2017 and 2016 (see Note 20).

Transactions with Joint Venture of LTG

- On April 10, 2018, the Parent Company executed a deed of absolute sale with ALI-Eton Property Development Corporation, a related party, for the sale of parcels of land totaling to ₱724.1 million, net of VAT. As of December 31, 2018, outstanding contracts receivable amounted to ₱236.2 million which is due in November 2019.

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 ₱71.9 million, ₱69.2 million and ₱62.9 million in 2018, 2017 and 2016, 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	2018	2017
ECI	EPPI	Advances; noninterest-bearing	₱748,130,906	₱915,999,260
ECI	BCI	-do-	52,367,093	53,283,552
FHI	EPPI	-do-	50,107,103	49,193,963
BCI	EPPI	-do-	947,491	22,730,477
EPMC	EPPI	-do-	771,107	6,534,425



Key Management Personnel

Compensation of key management personnel are as follows:

	2018	2017
Salaries and wages	₱15,768,347	₱13,978,382
Retirement benefits costs	5,024,188	7,809,698
	₱20,792,535	₱21,788,080

18. Interest Income and Finance Charges

	2018	2017	2016
Interest income:			
Cash and cash equivalents (Note 5)	₱42,996,385	₱28,083,279	₱14,197,600
Contracts receivables (Note 6)	14,323,845	16,472,876	41,673,403
	₱57,320,230	₱44,556,155	₱55,871,003
Finance charges:			
Interest expense on:			
Loans payable (Note 14)	₱346,013,592	₱258,766,163	₱117,437,354
Payables to landowners (Notes 14 and 15)	79,443,944	151,024,982	217,451,601
	425,457,536	409,791,145	334,888,955
Capitalized interest in investment properties (Note 9)	(134,850,525)	(71,781,277)	—
	290,607,011	338,009,868	334,888,955
Bank charges and others	565,485	17,109,836	22,810,851
	₱291,172,496	₱355,119,704	₱357,699,806

Capitalization rates for general and specific borrowing in 2018 and 2017 were 5.11% and 3.95%, and 5.38% and 3.95%, respectively. Others include penalties and surcharges which are individually not material as to amounts.

19. Selling Expenses

	2018	2017	2016
Commissions	₱85,455,109	₱35,363,699	₱40,182,898
Advertising and promotions	15,706,978	11,233,159	12,664,645
	₱101,162,087	₱46,596,858	₱52,847,543

20. General and Administrative Expenses

	2018	2017	2016
Personnel costs (Note 21)	₱184,155,265	₱192,752,164	₱201,562,781
Outside services (Note 17)	156,639,731	151,221,535	165,014,795

(Forward)



	2018	2017	2016
Taxes and licenses	₱96,179,467	₱93,701,921	₱61,648,392
Repairs and maintenance	82,824,722	48,849,175	30,771,485
Depreciation and amortization (Notes 10 and 11)	77,381,351	69,439,490	26,187,745
Communication, light and water	42,763,711	23,334,833	23,569,092
Travel and transportation	32,442,689	28,905,500	28,965,608
Professional fees	14,893,689	13,723,295	9,058,689
Entertainment, amusement and recreation	14,245,209	21,982,846	13,261,399
Office supplies	6,784,646	4,865,618	5,765,160
General insurance	6,056,306	13,699,584	11,696,149
Others	66,512,526	22,455,350	23,188,883
	₱780,879,312	₱684,931,311	₱600,690,178

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

21. Personnel Costs

	2018	2017	2016
Salaries and wages	₱133,731,032	₱130,686,528	₱142,750,549
Employee benefits	33,280,810	32,649,664	32,880,647
Retirement benefits cost (Note 23)	17,987,399	29,415,972	25,931,585
	₱184,999,241	₱192,752,164	₱201,562,781

22. Other Income (Charges)

	2018	2017	2016
Rental dues	₱158,982,530	₱150,616,283	₱169,684,010
Loss on cancelled contracts	(79,591,452)	(93,177,383)	(177,246,320)
Management fees	16,043,229	15,939,418	10,690,423
Penalty income and late payment charges	7,104,003	5,002,353	8,222,249
Others - net	33,483,580	16,983,413	52,723,146
	₱136,021,890	₱95,364,084	₱64,073,508

Rental dues pertain to income arising from charges and expenses recharged to tenants. Loss on cancelled contracts represents the loss incurred by the Group as a result of cancellation of contracts to sell by the buyer or the Group in general.

Others include penalties and late payment charges, gain or loss on disposal of fixed assets, day 1 gain security deposits and miscellaneous income.

23. Retirement Benefits

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 Group has unfunded, defined benefit type of retirement plans covering substantially all of its qualified employees. On June 26, 2018, the Board of Directors approved the new retirement plan for the Group's employees. The key differences between the new and old retirement plans are as follows:

- The new retirement plan provides early retirement benefit.
- The old retirement plan provides an employee 17.50 days final basic salary for every year of service with a fraction of six months considered as one year, while the new retirement plan provides 22.5 day-final monthly salary for every year of service upon normal or late retirement and a percentage of the accrued retirement benefits for early retirement.

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:

	2018	2017	2016
Current service cost	₱7,799,917	₱26,503,436	₱23,593,928
Interest cost on defined benefits obligation	3,896,607	2,912,536	2,337,657
Past service cost	6,290,875	—	—
	₱17,987,399	₱29,415,972	₱25,931,585

The retirement benefits liabilities recognized as part of "Other noncurrent liabilities" in the consolidated statements of financial position amounted to ₱31.8 million and ₱68.2 million as of December 31, 2018 and 2017, respectively.

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

	2018	2017	2016
Beginning of year	₱68,241,819	₱56,118,230	₱46,940,896
Retirement benefits cost in profit or loss:			
Current service cost	7,799,917	26,503,436	23,593,928
Interest cost on defined benefits obligation	3,896,607	2,912,536	2,337,657
Past service cost	6,290,875	—	—
	17,987,399	29,415,972	25,931,585
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from:			
Experience adjustments	7,505,709	(9,120,777)	(13,977,650)
Change in financial assumptions	(18,093,240)	(8,171,606)	(2,776,601)
Changes in demographic assumptions	(43,888,054)	—	—
	(54,475,585)	(17,292,383)	(16,754,251)
End of year	₱31,753,633	₱68,241,819	₱56,118,230

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

	2018	2017	2016
Discount rate	7.71%	5.19%	4.98%
Salary increase rate	8.00%	10.00%	10.00%
Average future working years of service	27	23	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:

	2018		2017	
Discount rate	+0.5%	(P1,834,203)	+0.5%	(P6,012,017)
	-0.5%	1,999,038	-0.5%	6,880,860
Future salary increase rate	+1.0%	4,126,958	+1.0%	13,625,910
	-1.0%	(3,540,995)	-1.0%	(10,755,355)

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

	2018	2017
Less than 1 year	P2,974,126	P1,863,823
More than 1 year up to 5 years	5,041,772	1,805,348
More than 5 years up to 10 years	38,027,368	35,995,611

24. Income Taxes

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

	2018	2017	2016
RCIT	P187,974,412	P159,206,559	P182,632,145
Final	6,917,525	5,809,906	2,846,858
Adjustment in the current period for income tax of prior period	4,905,338	—	—
MCIT	3,393,488	5,082,105	2,489,830
	P203,190,763	P170,098,570	P187,968,833

b. The Group's recognized net deferred income tax assets as of December 31, 2018 and 2017 follow:

	2018	2017
Deferred income taxes directly recognized in profit or loss:		
Deferred income tax assets on:		
Accrued rent expense	P60,835,020	P52,531,059
Retirement benefits liability	47,903,186	42,506,967
Advance rentals	29,917,384	25,278,408
Allowance for estimated credit losses	26,591,201	—
Accrued expenses	19,266,514	13,216,457
Difference between tax basis and book basis of accounting for real estate transactions	6,723,876	5,092,300
Excess MCIT	6,633,844	6,993,874
Unrealized foreign exchange loss	—	43,755
	197,871,025	145,662,820

(Forward)



	2018	2017
Deferred income tax liabilities on:		
Capitalized borrowing cost	(P57,938,262)	(P21,534,383)
Deferred rental income	(40,884,359)	(44,345,632)
Difference between tax basis and book basis of accounting for real estate transactions	(14,130,450)	(23,876,906)
Unamortized portion of debt issue cost	(7,382,966)	(7,947,851)
Day 1 gain on security deposits	(4,119,443)	—
Others	(1,442,014)	—
	(125,897,494)	(97,704,772)
	71,973,531	47,958,048
Deferred income tax liability on gains arising from changes in actuarial assumptions directly recognized in equity	(38,377,096)	(22,034,421)
	P33,596,435	P25,923,627

As of December 31, 2018 and 2017, the Group has not recognized deferred income tax assets on the carryforward benefits of NOLCO and excess MCIT totaling to P86.6 million and P193.3 million, respectively, based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized.

c. Details of the Group's NOLCO follow:

Year Incurred	Amount	Additions	Applied	Balance as of December 31, 2018	Available Until
2015	P84,606,172	P—	(P84,606,172)	P—	2018
2016	107,052,182	—	(22,172,566)	84,879,616	2019
2017	734,302	—	—	734,302	2020
	P192,392,656	P—	(P106,778,738)	P85,613,918	

Details of the Group's excess MCIT follow:

Year Incurred	Amount	Additions/ (Expiration)	Applied	Balance as of December 31, 2018	Available Until
2015	P417,354	P—	(P417,354)	P—	2018
2016	2,489,830	—	(1,494,416)	995,414	2019
2017	5,082,104	—	(1,841,748)	3,240,356	2020
2018	—	3,393,488	—	3,393,488	2021
	P7,989,288	P3,393,488	(P3,753,518)	P7,629,258	



- 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:

	2018	2017	2016
Provision for income tax at the statutory income tax rate	₱200,535,018	₱153,629,477	₱180,380,694
Adjustments for:			
Application of NOLCO for which no deferred income tax asset was recognized in prior years	(32,033,621)	(36,082,739)	(18,236,363)
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized	17,572,036	42,190,378	33,450,138
Nondeductible expenses	7,121,365	6,019,402	15,932,029
Interest income subjected to final tax	(5,981,391)	(2,615,076)	(1,412,421)
Adjustment in the current period for income tax of prior period	4,905,338	-	-
Impact of adoption of new accounting standards	(2,425,152)	-	-
Expiration of NOLCO and excess MCIT for which deferred income tax assets were recognized in prior years	-	1,080,937	1,646,107
Provision for income tax	₱189,693,593	₱164,222,379	₱211,760,184

25. Equity

Capital Stock

Details of the Parent Company's capital stock as of December 31, 2018 and 2017 are as follows:

	Number of Shares
Authorized capital stock at ₱1 par value	
Beginning and end of year	8,000,000,000
Issued and outstanding capital stock at ₱1 par value	
Issued capital stock	5,723,017,872
Treasury shares	(10,000)
Outstanding capital stock	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 1,666 and 1,665 stockholders as of December 31, 2018 and 2017, 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.



Retained Earnings

The retained earnings are 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 ₱175.2 million and ₱173.0 million as of December 31, 2018 and 2017, respectively, and unrealized items amounting to ₱159.7 million and ₱131.2 million as of December 31, 2018 and 2017, respectively, are not available for dividend declaration.

26. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	2018	2017	2016
Net income	₱478,756,468	₱347,875,876	₱389,508,796
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	₱0.0837	₱0.0608	₱0.0681

In 2018, 2017, and 2016, 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 ₱19.4 million, ₱13.9 million and ₱13.2 million in 2018, 2017 and 2016, respectively.

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

	2018	2017
Within one year	₱1,124,513,355	₱1,185,458,203
After one year but not more than five years	1,698,825,677	1,817,706,150
More than five years	146,461,175	145,504,668
	₱2,969,800,207	₱3,148,669,021

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:

	2018	2017
Within one year	₱27,175,862	₱24,043,373
After one year but not more than five years	157,671,982	117,131,363
More than five years	1,409,924,261	1,477,640,743
	₱1,594,772,105	₱1,618,815,479

28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are cash and cash equivalents, payables to landowners 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, trade and other payables and security deposits, 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, 2018 and 2017, the Group's maximum exposure to credit risk for the components of the consolidated statements of financial position follows:

	2018	2017
Financial assets at amortized cost		
Cash in banks and cash equivalents	₱2,640,448,342	₱1,528,871,154
Trade and other receivables:		
Contracts receivables	1,071,334,642	1,460,833,618
Lease receivables	45,816,320	27,759,771
Receivable from buyers	454,019,067	474,360,534
Receivable from tenants	41,566,610	32,660,091
Others*	151,174,921	136,416,271
Refundable deposits	176,264,142	159,329,429
	₱4,580,624,044	₱3,820,230,868

*Excluding advances to officers and employees amounting to ₱10.2 million and ₱1.9 million as of December 31, 2018 and 2017, respectively.

Set out below is the information about the credit risk exposure on the Group's financial assets using a provision matrix as of December 31, 2018:

	Cash in banks and cash equivalents	Refundable deposits	Trade and other receivables					Totals
			Current	Days past due				
				<30 days	30-60 days	61-90 days	> 91 days	
Expected credit loss rate	~%	3.51%	0.01% - 8.07%	0.03% - 11.50%	0.09% - 22.94%	0.90% - 27.57%	4.33% - 49.61%	
Estimated total gross carrying amount at default	₱2,640,448,342	₱170,287,640	₱732,051,533	₱67,680,624	₱23,419,444	₱31,210,160	₱204,268,487	₱1,058,630,248
Expected credit loss	₱-	₱5,976,502	₱1,240,774	₱1,123,740	₱1,412,377	₱2,944,971	₱75,938,973	₱82,660,835

Movement of the allowance for expected credit losses in 2018 and 2017 follow:

	2018	2017
Beginning balances, as previously reported	₱-	-
Impact of adoption of PFRS 9	-	43,157,975
Beginning balances, as adjusted	43,157,975	43,157,975
Provision for the year	45,479,362	-
Ending balances	₱88,637,337	₱43,157,975

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

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, 2018:

	On demand	Less than 1 year	1 - 5 years	Total
Financial liabilities:				
Trade and other payables:				
Accounts payables*	P-	P862,154,305	P-	P862,154,305
Retentions payable	-	746,279,574	-	746,279,574
Accrued expenses	-	1,569,033,027	-	1,569,033,027
Loans payable	-	737,816,725	6,482,783,275	7,220,600,000
Payable to landowners	444,000,000	171,452,237	1,269,423,159	1,884,875,396
Security deposits	-	241,883,848	264,123,308	506,007,156
	P444,000,000	P4,328,619,716	P8,016,329,742	P12,788,949,458
Financial assets:				
Cash and cash equivalents	P673,484,327	P1,966,964,015	P-	P2,640,448,342
Trade and other receivables**	625,938,526	843,255,359	294,717,675	1,763,911,560
	P1,299,422,853	P2,810,219,374	P294,717,675	P4,404,359,902

*Excluding payable to government agencies amounting to P2.9 million.

**Excluding advances to officers and employees amounting to P10.2 million.

As of December 31, 2017:

	On demand	Less than 1 year	1 - 5 years	Total
Financial liabilities:				
Trade and other payables:				
Accounts payables	P-	P624,736,086	P-	P624,736,086
Retentions payable	-	608,490,134	-	608,490,134
Accrued expenses	-	1,758,291,223	-	1,758,291,223
Loans payable	-	384,080,504	5,723,566,555	6,107,647,059
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-	P3,546,006,586	P7,943,098,044	P11,489,104,630
Financial assets:				
Cash and cash equivalents	P657,029,484	P871,841,670	P-	P1,528,871,154
Trade and other receivables**	759,889,088	605,344,898	766,796,299	2,132,030,285
	P1,416,918,572	P1,477,186,568	P766,796,299	P3,660,901,439

*Excluding payable to government agencies amounting to P2.1 million.

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

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, 2018 and 2017.

	US Dollar Value	Peso Equivalent
2018	\$1,389,737	₱73,266,929
2017	\$1,588,870	₱79,332,279

The exchange rate used as of December 31, 2018 and 2017 were ₱52.72 to US\$1.00 and ₱49.93 to US\$1.00, respectively. The Group recognized net foreign exchange gain amounting to ₱4.76 million in 2018 and net foreign exchange loss amounting to ₱0.15 million in 2017.

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, 2018 and 2017. 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
2018	2.65% (2.65%)	₱1,935,606 (1,935,606)
2017	2.77% (2.77%)	2,194,035 (2,194,035)

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, 2018 and 2017.

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash on hand	₱2,094,728	₱2,094,728	₱1,643,927	₱1,643,927
Loans and receivables:				
Cash in banks and cash equivalents	2,640,448,342	2,640,448,342	1,528,871,154	1,528,871,154
Contracts receivables	994,517,275	994,517,275	1,460,833,618	1,460,833,618
Lease receivables	41,255,206	41,255,206	27,759,771	27,759,771
Receivables from buyers	454,019,067	454,019,067	474,360,534	474,360,534
Receivables from tenants	40,284,256	40,284,256	32,660,091	32,660,091
Others*	151,174,921	151,174,921	136,416,271	136,416,271
Refundable deposits**	170,287,640	170,287,640	159,329,429	159,329,429
	₱4,494,081,435	₱4,494,081,435	₱3,821,874,795	₱3,821,874,795

* Excluding advances to officers and employees amounting to ₱10.2 million and ₱1.9 million as of December 31, 2018 and 2017, respectively.

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

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Other financial liabilities:				
Trade and other payables:				
Accounts payable*	₱862,154,305	₱862,154,305	₱624,736,086	₱624,736,086
Retentions payable	746,279,574	746,279,574	608,490,134	608,490,134
Accrued expenses	1,569,033,027	1,569,033,027	1,758,291,223	1,758,291,223
Loans payable	7,190,965,346	5,867,197,270	6,080,146,174	5,443,815,155
Payables to landowners	1,884,875,396	1,877,555,121	1,937,568,320	1,934,285,924
Security deposits**	520,085,206	506,007,156	452,371,808	414,361,628
	₱12,773,392,854	₱11,428,226,453	₱11,461,603,745	₱10,783,980,150

* Excluding payable to government agencies amounting to ₱2.9 million and ₱2.1 million as of December 31, 2018 and 2017, respectively.

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



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

The carrying values of cash and cash equivalents, trade and other receivables and trade and other payables, 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, 2018 and 2017.

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, 2018 and 2017, respectively. Management has determined the inputs to be Level 3.

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

- quoted prices in active markets for identical assets (Level 1);
- those involving inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices) (Level 2); and,
- those inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

In 2018 and 2017, there were no transfers between Levels 1 and 2 fair value measurements, and no transfers into and out of Level 3 measurements.

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, 2018 and 2017. Accordingly, the Group is not subject to externally imposed capital requirements.

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

	2018	2017
Capital stock	P5,723,017,872	P5,723,017,872
Additional paid-in capital	8,206,662,618	8,206,662,618
Retained earnings	3,129,581,453	2,708,999,259
Treasury shares	(7,955)	(7,955)
	P17,059,253,988	P16,638,671,794



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. 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.

32. Notes to Consolidated Statements of Cash Flows

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

- In 2018, 2017 and 2016, the Group reclassified real estate inventory amounting to ₱282.9 million, ₱536.7 million and ₱2,549.0 million, respectively, to investment property (see Notes 7 and 9).
- In 2018 and 2017, the Group reclassified costs of condominium units and furniture, fixtures and equipment totaling to ₱16.4 million and ₱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 2018 and 2017 amounted to ₱134.9 million and ₱71.8 million (nil in 2016), respectively (see Notes 7 and 9).
- Non-cash financing activity of the Group pertains to the amortization of transaction costs amounting to ₱9.1 million in 2018, ₱2.2 million in 2017 and ₱3.0 million in 2016 (see Note 14).
- Reconciliation of the movements of liabilities arising from financing activities in 2018 is as follows:

	Loans payable	Payables to landowners	Total
Beginning balances	₱6,080,146,174	₱1,937,568,320	₱8,017,714,494
Cash movements:			
Availment of an additional loan	1,500,000,000	—	1,500,000,000
Cash settlements during the year	(387,047,059)	(52,692,924)	(439,739,983)
Payment of transaction costs	(11,250,000)	—	(11,250,000)
Non-cash movement:			
Amortization of transaction costs	9,116,231	—	9,116,231
Ending balances	₱7,190,965,346	₱1,884,875,396	₱9,075,840,742




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

We have audited the accompanying consolidated financial statements of Eton Properties Philippines, Inc. and Subsidiaries as at and for the year ended December 31, 2018 on which we have rendered the attached report dated February 11, 2019.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has 1,452 stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.


Martin C. Guañtes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-4 (Group A),
August 23, 2018, valid until August 22, 2021

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,
February 26, 2018, valid until February 25, 2021

PTR No. 7332557, January 3, 2019, Makati City

February 11, 2019



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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated February 11, 2019. 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-4 (Group A),
August 23, 2018, valid until August 22, 2021

Tax Identification No. 152-884-272

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

February 26, 2018, valid until February 25, 2021

PTR No. 7332557, January 3, 2019, Makati City

February 11, 2019



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

Supplementary schedule 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 of December 31, 2018		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, 2018. The Group did not early adopt these standards, interpretations and amendments.



INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Early Adopted	Not Applicable
Effective as of December 31, 2013				
PFRS 3 (Revised) (cont'd)	Amendments to PFRS 3, <i>Definition of a Business</i> *		✓	
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	✓		

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2018. The Group did not early adopt these standards, interpretations and amendments.



*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2018. The Group did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		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	✓		
	Amendments to PAS 1, <i>Presentation of Financial Statements</i> , and PAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*</i>		✓	
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*	✓		
	Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*		✓	
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			✓

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2018. The Group did not early adopt these standards, interpretations and amendments.



PUBLISHED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective from December 31, 2018		Adopted	Not Early Adopted	Not Applicable
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
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			✓
	Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement*		✓	
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	✓		
	Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*		✓	
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			✓

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2018. The Group did not early adopt these standards, interpretations and amendments.



RELEVANT FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	No Early Adopted	No Applicable
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			✓
	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	✓		

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2018. The Group did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Early Adopted	Not Applicable
PAS 39 (cont'd)	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
	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			✓

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2018. The Group did not early adopt these standards, interpretations and amendments.



Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2018		Adopted	Not Early Adopted	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate		✓	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatments*		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-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			✓

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2018. The Group did not early adopt these standards, interpretations and amendments.



ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2018

Retained earnings available for dividend declaration as at December 31, 2017			₱2,730,850,749
Add: Net income actually earned/realized during the period			
Net income during the period closed to Retained Earnings	₱448,262,302		
Less: Non-actual/unrealized income net of tax			
Equity in net income of associate/joint venture		—	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)		—	
Unrealized actuarial gain		—	
Fair value adjustment (M2M gains)		—	
Fair value adjustment of investment property resulting to gain		—	
Adjustment due to deviation from PFRS/GAAP - gain		—	
Movement of deferred income tax assets	28,543,145		
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS		—	
Add: Non-actual losses		—	
Depreciation on revaluation increment (after tax)		—	
Movement of deferred income tax assets		—	
Adjustment due to deviation from PFRS/GAAP - loss		—	
Loss on fair value adjustment of investment property (after tax)		—	
			419,719,157
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS AT DECEMBER 31, 2018			₱3,150,569,906
