





SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q  
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(B) THEREUNDER

1. For the quarterly period ended March 31, 2016
2. SEC Identification No. – 43798
3. BIR Tax Identification No.: 000-438-132-000
4. ETON PROPERTIES PHILIPPINES, INC.  
(Exact name of registrant as specified in its charter)
5. Makati City
6. Industry Classification \_\_\_\_\_ (SEC Use Only)  
(Province, Country or other jurisdiction of incorporation of principal office) Industry Classification Code
7. 8<sup>th</sup>Floor Allied Bank Center, 6754 Ayala Avenue,  
Makati City 1226  
(Address of principal office) Postal Code
8. (632) 548 4000  
(Registrant's telephone number, including area code)
9. BALABAC RESOURCES AND HOLDINGS CO., INC.  
7/F Allied Bank Center, 6754 Ayala Avenue, Makati City  
(Former name, former address & former fiscal year, if changed since last report)
10. 

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding</u>
Common	5,723,017,872 shares
(Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA)	
11. Are any or all of these securities listed on the Philippine Stock Exchange?  
  
NO
12. Checked whether the registrant:
  - a. Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports);  
  
YES
  - b. Has been subject to such filing requirements for the past 90 days.  
  
YES

## **PART I - FINANCIAL INFORMATION**

### **Item 1 – Financial Statements**

Eton Properties Philippines, Inc. and its Subsidiaries' (the Group) interim consolidated financial statements as of March 31, 2016 are filed with this report.

### **Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations and Plan of Operations**

#### **1. Plan of Operation**

As of first quarter of 2016, the Group has seven fully leased out BPO buildings covering 125,000 square meters, more or less. Of this, four are located in Eton Centris while three are in Eton Cyberpod Corinthian. Both are strategically located near transportation hubs and retail establishments, making these accessible to BPO employees and complementing the 24/7 operations of its locators. The Group's BPO office buildings are currently leased to top global outsourcing companies.

The Group also pushed sales activities during this period for its completed projects in prime locations across Metro Manila, including 68 Roces along Don A. Roces Avenue in Quezon City, 8 Adriatico in the City of Manila, Belton Place and Eton Parkview Greenbelt in Makati, the West Wing Residences at Eton City, and the Manors and West Wing Residences at NBC in Quezon City. Throughout the quarter, the Group launched its other Move-in-Ready units in 68 Roces in Quezon City, Eton Parkview Greenbelt in Makati and West Wing Residences in Eton City.

Construction of the 25-storey Cyberpod Centris Five, the fifth BPO facility in Eton Centris, will commence in 2016, while Centris Walk will be expanded to accommodate more retail and dining spaces. In Eton Tower Makati, the opening of The Mini Suites, a unique serviced residence, and its two storey retail area that is directly connected to the Dela Rosa elevate walkway, will also take place within the year.

The Group will also break ground and launch Eton WestEnd Square in Makati City, a mixed use development which includes a high-rise residential condominium, an office tower, and a boutique mall.

#### **2. Results of Operations and Financial Condition**

##### **Results of Operations**

The Group reported a net income after tax of ₱61.6 million for the first three months of 2016, higher than last year's net income after tax for the same period of ₱50.9 million. Gross Profit (GP) from total revenue likewise increased by 6% or ₱45.9 million as compared to the same period last year. The improvement in the Group's over-all gross profit rate from 45% during the first three months of 2015 to 51% in 2016 was attributable to higher rental revenue.

Rental revenue for the first quarter of 2016 accounted for ₱308.7 million or 47.2% of revenues, representing 20% growth over the same period in 2015, as the lease contracts were renewed at higher rental rates, especially for the Group's BPO offices.

General and administrative expenses decreased by 12% or ₱18.2 million primarily as a result of the decrease in taxes & licenses due to the absence of transaction costs incurred by the Group in the first quarter of 2015 relating to its application for increase in capital with the SEC. Finance charges also increased by ₱47.9 million or 174% as the Group discontinued the capitalization of borrowing costs on loans attributable to projects that were already completed during the period.

Provision for income tax increased from ₱32.3 million in the first three months of 2015 to ₱48.9 million in the first three months of 2016 due to higher taxable income posted during the period.

### **Financial Condition**

As of March 31, 2016, the Group's consolidated assets stood at ₱27,248.2 million or ₱1,151.0 million higher than the ₱26,097.2 million consolidated assets as of December 31, 2015. The net increase was primarily due to the ₱1,885.2 million increase in investment properties mainly due to the purchase of land located in Mactan, Cebu. Total liabilities also increased by ₱1,089.5 million primarily due to the recognition of additional payable to landowners relating to the purchase of land made during the period.

The Group's top five (5) key performance indicators are:

1. Net Income

The Group posted net income of ₱61.6 million for the quarter ended March 31, 2016. This is 21% higher than the net income generated during the first quarter of 2015 of ₱50.9 million. The increase in net income was mainly due to higher rental revenues and improvement in the over-all gross profit rate of the Group from 45% last year to 51% this year.

2. Current Ratio (*Current Assets/Current Liabilities*)

2.00:1 and 2.10:1 as of March 31, 2016 and December 31, 2015, respectively. The decrease was mainly due to lower current assets as a result of lower cash and cash equivalents as of end of the period.

3. Basic and Diluted Earnings (Loss) Per Share

The Group reported basic earnings per share of ₱0.011 for the quarter ended March 31, 2016 compared to ₱0.010 per share for the same period last year.

4. Debt to Equity Ratio (*Total Liabilities/Total Equity*)

Debt to equity ratio as of March 31, 2016 is 0.70:1 and 0.64:1 as of December 31, 2015. The increase is primarily due to the additional payable to landowners recognized during the first quarter of 2016.

5. Quick Ratio (*Cash and Cash Equivalents and Receivables/Current Liabilities*)

Quick ratio as of March 31, 2016 of 0.56:1 is lower than the quick ratio as of December 31, 2015 of 0.73:1 primarily due to lower cash and cash equivalents as of end of the first quarter of 2016.

- (i) There are no known trends or any known demands, events of uncertainties that will affect the Group's liquidity. Expected inflows from operations are deemed sufficient to sustain the Group's operations for the next six months.
- (ii) There are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

- (iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.
- (iv) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues of income from continuing operations.
- (v) There is no significant element of income that did not arise from continuing operations.
- (vi) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item:

Results of our vertical analyses showed the following material items:

1. Cash and cash equivalents – 4% pertains to the Group’s demand deposits in bank accounts and short-term investments in money market funds.
2. Current and non-current portion of trade and other receivables – 12% consist of the revenues recognized to date less the collections received from the respective buyers.
3. Real estate project in progress – 31% consist of actual project cost incurred to date and the cost of land purchased by the Group for its various residential projects. Deducted from this account is the cost of residential and condominium units sold to date based on project’s percentage of completion.
4. Other current assets – 5% consist mainly of prepaid taxes, creditable withholding taxes, input VAT, deferred rent assets and advances to contractors.
5. Investment properties – 46% mainly includes actual project cost incurred for the Group’s leasable commercial and office spaces.
6. Trade and other payables – 13% mainly includes retention payables and trade payables to contractors/suppliers, accruals of project cost.
7. Payable to related parties – 2% mainly includes unpaid purchase price of land acquired from related parties.
8. Customers’ deposits – 6% represents payments received from buyers of residential and condominium units. This account will eventually be credited once the corresponding contracts receivable is recognized.
9. Current and non-current portion of loans Payable – 4% includes Banco De Oro (BDO) term loan and CTS financing loan used to finance the Group’s working capital requirement.
10. Current and non-current portion of payables to landowners – 15% represents the amount payable by the Group to various landowners for the acquisition of land.
11. Equity – 59% includes the posted net income for the past quarter.

Results of our horizontal analyses showed the following material changes:

1. Cash and cash equivalents – 52% decrease primarily due to the down payment made for the purchase of land acquired during the quarter. Principal payments were also made to landowners and loans payable which became due during the quarter.
2. Other Current Assets – 13% increase mainly due to input VAT paid relating to purchase of goods and services and prepaid taxes yet to be amortized on the remainder of the year.
3. Investment properties – 18% increase primarily due to the purchase of land located in Mactan, Cebu.
4. Deferred tax assets – 25% increase primarily represents the timing difference between tax and book basis of accounting for real estate transactions.
5. Income tax payable – 100% decrease due to payment made to BIR. For the first quarter of 2016, the Group has excess creditable withholding tax certificate over its income tax due.
6. Customer’s deposits – 5% decrease primarily pertains to collections from customers of real estate sales which are not yet qualified for revenue recognition.

7. Current and non-current portion of loans Payable – 12% decrease due to partial payments of BDO term loan and CTS financing accounts.
8. Current and non-current portion of payable to landowners – 43% primarily due to the liability recognized by the Group relating to its purchase of land in Mactan, Cebu.

All of these material changes were explained in detail in the Management’s Discussion and analysis of Financial Condition and Results of Operations stated above.

**Item 3 – Other Information**

<b>FINANCIAL STATEMENTS REQUIRED UNDER SRC RULE 68.1</b>	Remarks
The following information, as a minimum, should be disclosed in the notes to financial statements, if material and if not disclosed elsewhere in the interim financial report.	
1. Explanatory comments about the seasonality or cyclicity of interim operations;	Not applicable
2. The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents;	Not applicable
3. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;	Not applicable
4. Issuances, repurchases, and repayments of debt and equity securities;	Please see attached
5. Dividends paid (aggregate or per share) separately for ordinary shares and other shares;	Not applicable
6. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer’s primary basis of segment reporting. (This shall be provided only if the issuer is required to disclose segment information in its annual financial statements);	Please see attached
7. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;	Not applicable
8. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations; and,	Not applicable
9. Changes in contingent liabilities or contingent assets since the last annual balance sheet date.	Not applicable
10. Financial risk management objectives and policies	Please see attached


Part II – Other Information


**SIGNATURES**

Pursuant to the requirements of the Securities Regulation code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ETON PROPERTIES PHILIPPINES, INC.**

By:

  
**Wilfredo Z. Pineda**  
Chief Financial Officer  
April 11, 2016

  
**Lucio K. Tan, Jr.**  
President  
April 11, 2016

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

	March 31, 2016*	December 31, 2015**
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	₱996,322,591	₱2,093,151,673
Trade and other receivables	2,904,580,986	3,050,988,883
Real estate inventories	8,582,281,317	8,357,108,226
Other current assets	1,477,219,202	1,302,708,164
<b>Total Current Assets</b>	<b>13,960,404,096</b>	<b>14,803,956,946</b>
<b>Noncurrent Assets</b>		
Receivables - net of current portion	441,995,634	352,317,631
Investment properties	12,528,934,257	10,643,783,726
Property and equipment	42,692,242	42,940,317
Deferred income tax assets	67,532,450	54,052,774
Other noncurrent assets	206,654,017	200,129,973
<b>Total Noncurrent Assets</b>	<b>13,287,808,600</b>	<b>11,293,224,421</b>
<b>TOTAL ASSETS</b>	<b>₱27,248,212,696</b>	<b>₱26,097,181,367</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables	₱3,497,928,311	₱3,517,211,520
Income tax payable	—	6,463,999
Payables to related parties	577,835,453	583,669,830
Customers' deposits	1,504,725,751	1,426,649,037
Current portion of:		
Loans payable	476,014,679	476,014,679
Payable to Landowners	777,736,507	875,695,891
Deposits and other current liabilities	160,283,974	160,312,708
<b>Total Current Liabilities</b>	<b>6,994,524,675</b>	<b>7,046,017,664</b>
<b>Noncurrent Liabilities</b>		
Loans payable - net of current portion	580,432,999	720,003,831
Payables to landowners – net of current portion	3,215,364,463	1,920,573,339
Other noncurrent liabilities	467,446,938	481,718,407
<b>Total Noncurrent Liabilities</b>	<b>4,263,244,400</b>	<b>3,122,295,577</b>
<b>Total Liabilities</b>	<b>11,257,769,075</b>	<b>10,168,313,241</b>
<b>Equity</b>		
Capital stock - ₱1 par value	5,723,017,872	5,723,017,872
Additional paid-in capital	8,206,662,618	8,206,662,618
Accumulated remeasurements on retirement benefits	27,581,004	27,581,004
Retained earnings	2,033,190,082	1,971,614,587
Treasury shares	(7,955)	(7,955)
<b>Total Equity</b>	<b>15,990,443,621</b>	<b>15,928,868,126</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱27,248,212,696</b>	<b>₱26,097,181,367</b>

\*Unaudited

\*\*Audited



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

	Quarters Ended March 31	
	2016*	2015*
<b>REVENUE</b>		
Real estate sales	P345,687,318	P386,499,577
Rental income	308,715,392	257,956,735
	<b>654,402,710</b>	<b>644,456,312</b>
<b>COST AND EXPENSES</b>		
Cost of real estate sales	259,046,907	299,610,573
Cost of rental income	59,243,834	54,654,912
Selling expenses	14,395,343	10,816,786
General and administrative expenses	138,821,056	157,039,353
	<b>471,507,140</b>	<b>522,121,624</b>
<b>OTHER INCOME (CHARGES)</b>		
Interest income	4,915,900	13,276,295
Finance charges	(75,365,024)	(27,490,021)
Foreign exchange gains	698,461	297,888
Other income (charges)	(2,630,958)	(25,241,692)
	<b>(72,381,621)</b>	<b>(39,157,530)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>110,513,949</b>	<b>83,177,158</b>
<b>PROVISION FOR INCOME TAX</b>		
Current	41,588,226	17,339,500
Deferred	7,350,228	14,918,024
	<b>48,938,454</b>	<b>32,257,524</b>
<b>NET INCOME</b>	<b>P61,575,495</b>	<b>P50,919,634</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b>	<b>P0.011</b>	<b>P0.010</b>

\*Unaudited

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

	<b>Quarters Ended March 31</b>	
	<b>2016*</b>	<b>2015*</b>
<b>NET INCOME</b>	<b>₱61,575,495</b>	<b>₱50,919,634</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>—</b>	<b>—</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱61,575,495</b>	<b>₱50,919,634</b>

*\*Unaudited*

**ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Quarters Ended March 31	
	2016*	2015*
<b>Equity</b>		
Capital stock - 1 par value		
Issued and fully paid at beginning of period	P5,723,017,872	P2,905,348,700
Issuance of new shares of stock	—	2,067,669,172
New stock subscription	—	—
Balance at end of period	5,723,017,872	4,973,017,872
Additional paid-in capital		
Balance at beginning of period	8,206,662,618	3,500,000,000
Additional paid-in capital from issued new shares of stock	—	3,432,330,828
Additional paid-in capital from new stock subscription	—	—
Balance at end of period	8,206,662,618	6,932,330,828
Retained earnings		
Balance at beginning of period	1,971,614,587	1,658,359,778
Net income for the period	61,575,495	50,919,634
Balance at end of period	2,033,190,082	1,709,279,412
Accumulated remeasurements on retirement benefits	27,581,004	17,886,450
Treasury shares, at cost	(7,955)	(7,955)
<b>Total Equity</b>	<b>P15,990,443,621</b>	<b>P13,632,506,607</b>

\*Unaudited

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

	Quarters Ended March 31	
	2016*	2015*
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	₱110,513,949	₱83,177,158
Adjustments for:		
Interest expense	74,246,136	27,478,333
Depreciation and amortization	39,985,041	36,891,494
Retirement benefits costs	5,599,642	163,196
Interest income	(4,915,900)	(13,276,295)
Unrealized foreign exchange losses (gains)	8,015	(228,328)
Operating income before working capital changes	225,436,883	134,205,558
Decrease (increase) in:		
Trade and other receivables	46,226,324	(25,887,847)
Real estate inventories	(225,968,589)	(8,429,401)
Other assets	(177,790,532)	(61,105,277)
Increase (decrease) in:		
Trade and other payables	(38,394,787)	(277,391,837)
Payables to related parties	(5,834,377)	(9,619,650)
Customers' deposits	78,076,714	(125,501,855)
Deposits and other liabilities	(40,729,746)	31,108,287
Cash generated used in operations	(138,978,110)	(342,622,022)
Interest paid	(54,540,428)	(47,463,594)
Income taxes paid, including creditable withholding taxes	(52,951,860)	(13,194,232)
Interest received	15,419,470	13,276,295
Net cash used in operating activities	(231,050,928)	(390,003,553)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Investment properties	(587,699,766)	(52,336,669)
Property and equipment	(4,591,258)	(10,471,005)
Software	(145,893)	(6,482,683)
Net cash used in investing activities	(592,436,917)	(69,290,357)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of loans payable	(140,164,962)	(122,675,227)
Payment to landowners	(133,168,260)	-
Net cash used in financing activities	(273,333,222)	(122,675,227)

(Forward)

	<b>Quarters Ended March 31</b>	
	<b>2016*</b>	<b>2015*</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(P8,015)</b>	<b>P228,331</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,096,829,082)</b>	<b>(581,740,806)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,093,151, 673</b>	<b>1,959,365,647</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>P996,322,591</b>	<b>P1,377,624,841</b>

*\*Unaudited*

## **ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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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 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 SEC on June 8, 2007.

On October 6, 2009, the Parent Company’s BOD approved the acquisition of an approximately 12-hectare property, with an appraised value of ₱3,953.2 million, owned by Paramount Landequities, Inc. (Paramount), where the Eton Centris projects are situated in exchange for the issuance of 1.6 billion shares to Paramount at ₱2.5 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 17). As approved by SEC in July 2011, the property was recognized by the Parent Company at the value of ₱4.0 billion (see Notes 7, 9 and 17).

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 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 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 ₱1.0 per share to ₱8.0 billion divided into 8.0 billion common shares with a par value of ₱1.0 per share. On September 28, 2015, Eton filed an application with the SEC to increase its authorized capital stock which was subsequently approved by the 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 March 31, 2016, Eton is 56.88%-owned by Paramount. Eton's ultimate parent company is Tangent Holdings Corporation, a company incorporated and domiciled in the Philippines.

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

#### *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 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 ₱1.0 per share to ₱800,000,000 divided into 800,000,000 common shares with a par value of ₱1.0 per share. On December 23, 2014, BCI filed an application with the SEC to increase its authorized capital stock which was subsequently approved by the 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 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 ₱1.0 per share to ₱

1,000,000,000 divided into 1,000,000,000 common shares with a par value of ₱1.0 per share. On December 23, 2014, ECI filed an application with the SEC to increase its authorized capital stock which was subsequently approved by the 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 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. EPMC has not yet started its operations as of March 31, 2016.

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

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## 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 Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at March 31, 2016 and December 31, 2015 and for each of the quarters ended March 31, 2016 and 2015. 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 accounting pronouncements starting January 1, 2015. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

The nature and impact of each new standard and amendment are described below:

- Amendments to PAS 19, *Defined Benefit Plans: Employee Contributions*, require an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are not relevant to the Group.

#### *Annual Improvements to PFRS (2010-2012 cycle)*

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these financial statements. Unless otherwise stated, these amendments have no impact on the consolidated financial statements. They include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- Amendment to PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*.
- Amendments to PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation

criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- Amendment to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*, is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- Amendment to PAS 24, *Related Party Disclosures - Key Management Personnel*, is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

#### *Annual Improvements to PFRS (2011-2013 cycle)*

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these financial statements. Unless otherwise stated, these amendments have no impact on the consolidated financial statements. They include:

- Amendment to PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- Amendment to PFRS 13, *Fair Value Measurement - Portfolio Exception*, is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, if early adopted).
- Amendment to PAS 40, *Investment Property*, is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

#### New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2015

The Group will adopt the standards and interpretations enumerated below when these become effective. The Group continues to assess the impact of the following new and amended accounting standards and interpretations. The standards, amendments and interpretations which have been issued but not yet effective as at December 31, 2015 are disclosed below.

#### *Deferred*

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract

qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The Group is currently assessing the impact of adopting this interpretation.

- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed 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 impact on the consolidated financial statements.

#### *Effective in 2016*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*, clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments will not have any impact on the consolidated financial statements.
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the consolidated financial statements.
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests*, require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption

permitted. These amendments are not expected to have any impact to the Group.

- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*, are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:
  - that entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - that specific line items in the statement of income and other comprehensive income (OCI) and the statement of financial position may be disaggregated
  - that entities have flexibility as to the order in which they present the notes to financial statements
  - that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Group is currently assessing the impact of these amendments on its financial statements.

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.
- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*, change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as it does not have any bearer plants.
- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*, clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that it has not used a revenue-based method to depreciate its noncurrent assets.

#### *Annual Improvements to PFRS (2012-2014 cycle)*

The Annual Improvements to PFRS (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact to the Group.

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*, is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- Amendment to PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*, requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*, applies retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- Amendment to PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*, is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- Amendment to PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*, is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

#### *Effective in 2018*

- PFRS 9, *Financial Instruments (2014 or final version)*, reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.
- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers* was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an

amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once locally adopted.

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*Effective in 2019*

- IFRS 16, *Leases* was issued in January 2016 and replaces IAS 17, the current leases standard, and the related Interpretations. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

## **Summary of Significant Accounting Policies**

### 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 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 after the reporting period.

The Group classifies all other liabilities as non-current.

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

#### Cash and Cash Equivalents

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

#### Financial Instruments

##### *Date of recognition*

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

#### *Initial recognition and classification of financial instruments*

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

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

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

As of March 31, 2016 and December 31, 2015, the Group's financial assets and financial liabilities consist of loans and receivables, and other financial liabilities.

#### *"Day 1" difference*

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

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets. As of March 31, 2016 and December 31, 2015, the Group's loans and receivables include cash and cash equivalents, trade and other receivables and refundable deposits.

#### *Other financial liabilities*

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

As of March 31, 2016 and December 31, 2015, the Group's other financial liabilities include trade and other payables (except those non-contractual liabilities and liabilities to government agencies), payables to related parties, loans payable, payables to landowners and security deposits.



### Impairment of Financial Assets

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

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

### *Loans and receivables*

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

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

### Derecognition of Financial Assets and Financial Liabilities

#### *Financial assets*

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

- the right to receive cash flows from the asset has expired;
  - the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement;
- or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial liabilities*

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

#### Real Estate Inventories

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

Cost includes:

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

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

#### Advances to Contractors

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

#### Creditable Withholding Taxes (CWT)

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

#### *Determination of fair value of financial instruments*

Where the fair values of financial assets and liabilities recorded in the consolidated statement of financial position 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 information if possible, but where this is not feasible; estimates are used in establishing fair values.

#### *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 provision in 2016 and 2015.

#### Accounting Estimates and Assumptions

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

#### *Revenue and cost recognition*

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

Real estate sales and cost of real estate sales amounted to ₱345.7 million and ₱259.0 million in the first quarter of 2016 and ₱386.5 million and ₱299.6 million in the first quarter of 2015, respectively.

#### *Estimation of allowance for loans and receivables*

The level of allowance for loans and receivables is evaluated by management based on past collection history and other factors which include, but are not limited to the length of the Group's relationship with the customer, the customer's payment behavior and known market factors that affect the collectability of the accounts. As of March 31, 2016 and December 31, 2015, the Group did not recognize any allowance for impairment on its loans and receivables.

#### *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 March 31, 2016 and December 31, 2015, real estate inventories, which are carried at cost, amounted to ₱8,582.3 million and ₱8,357.1 million, respectively.

#### *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 life of depreciable investment properties, property and equipment and software in 2016 and 2015. The carrying values of the Group's investment properties (excluding land and construction in progress), property and equipment and software amounted to ₱4,612.2 million, ₱42.7 million and ₱19.1 million, respectively, as of March 31, 2016 and ₱4,641.2 million, ₱42.9 million and ₱20.8 million, respectively, as of December 31, 2015.

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

The Group evaluates its nonfinancial assets 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 noncurrent nonfinancial assets approximate their recoverable amounts as of March 31, 2016 and December 31, 2015.

*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 March 31, 2016 and December 31, 2015, retirement benefits liability amounted to ₱50.2 million and ₱46.9 million, respectively. Retirement benefits cost amounted to ₱5.6 million and ₱3.6 million in the first quarter of 2016 and 2015, respectively.

*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. However, there is no assurance that the Group will generate sufficient future taxable profits 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 March 31, 2016 and December 31, 2015, the Group recognized deferred income tax assets amounting to ₱87.9 million and ₱156.2 million, respectively.

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

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

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

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

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

The business segments where the Group operates follow:

- Residential developments - sale of residential lots and condominium units; and,
- Leasing activities - development of Business Process Outsourcing (BPO) buildings and commercial spaces for lease.

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

**Comparative Financial Information Per Business Segment**  
**As of and for the Quarters Ended March 31, 2016 and 2015**  
(Unaudited)

2016

	Residential Developments	Leasing Activities	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P345,687,318	P308,715,392	P-	P654,402,710
Direct costs	(259,046,907)	(59,243,834)	-	(318,290,741)
<b>Gross profit</b>	<b>86,640,411</b>	<b>249,471,558</b>	<b>-</b>	<b>336,111,969</b>
Selling, general and administrative expenses	(14,395,343)	-	(138,821,056)	(153,216,399)
<b>Operating income</b>	<b>72,245,068</b>	<b>249,471,558</b>	<b>(138,821,056)</b>	<b>182,895,570</b>
Interest income	2,429,230	-	2,486,670	4,915,900
Other income (charges)	(51,316,765)	43,667,639	5,716,629	(1,932,497)
Finance charges	-	-	(75,365,024)	(75,365,024)
Provision for income tax	-	-	(48,938,454)	(48,938,454)
<b>Segment profit</b>	<b>P23,357,533</b>	<b>P293,139,197</b>	<b>(P254,921,235)</b>	<b>P61,575,495</b>
<b>Other information</b>				
Segment assets	P11,960,897,296	P12,745,636,886	P2,474,146,064	P27,180,680,246
Deferred income tax assets - net	-	-	67,532,450	67,532,450
<b>Total segment assets</b>	<b>P11,960,897,296</b>	<b>P12,745,636,886</b>	<b>P2,541,678,514</b>	<b>P27,248,212,696</b>
<b>Segment liabilities</b>	<b>P5,509,010,518</b>	<b>P592,463,851</b>	<b>P5,101,096,739</b>	<b>P11,257,769,075</b>
<b>Segment additions to property and equipment, investment properties and software</b>	<b>P4,737,151</b>	<b>P1,918,495,264</b>	<b>P-</b>	<b>P1,923,232,415</b>
Depreciation and amortization	6,640,308	33,344,733	-	39,985,041

2015

	Residential Developments	Leasing Activities	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P386,499,577	P257,956,735	P-	P644,456,312
Direct costs	(299,610,573)	(54,654,912)	-	(354,265,485)
<b>Gross profit</b>	<b>86,889,004</b>	<b>203,301,823</b>	<b>-</b>	<b>290,190,827</b>
Selling, general and administrative expenses	(5,616,268)	-	(162,239,871)	(167,856,139)
<b>Operating income</b>	<b>81,272,736</b>	<b>203,301,823</b>	<b>(162,239,871)</b>	<b>122,334,688</b>
Interest income	11,286,989	-	1,989,306	13,276,295
Other income (charges)	(54,992,448)	26,538,772	3,509,872	(24,943,804)
Finance charges	-	-	(27,490,021)	(27,490,021)
Provision for income tax	-	-	(32,257,524)	(32,257,524)
<b>Segment profit</b>	<b>P37,567,277</b>	<b>P229,840,595</b>	<b>(P216,488,238)</b>	<b>P50,919,634</b>
<b>Other information</b>				
Segment assets	P11,907,519,124	P8,476,426,001	P2,797,566,522	P23,181,511,647
Deferred income tax assets - net	-	-	59,007,985	59,007,985
<b>Total segment assets</b>	<b>P11,907,519,124</b>	<b>P8,476,426,001</b>	<b>P2,856,574,506</b>	<b>P23,240,519,632</b>
<b>Segment liabilities</b>	<b>P4,171,030,018</b>	<b>P875,130,816</b>	<b>P4,561,852,188</b>	<b>P9,608,013,022</b>
<b>Segment additions to property and equipment, investment properties and software</b>	<b>P16,953,688</b>	<b>P52,336,669</b>	<b>P-</b>	<b>P69,290,357</b>
Depreciation and amortization	P-	P32,271,036	P4,620,458	P36,891,494

## 5. Financial Instruments

### Fair Value Information

Presented below is the comparison of the carrying values and fair values of the Group's financial instruments that are presented in the consolidated statements of financial position as of March 31, 2016 and December 31, 2015.

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Cash on hand	₱619,699	₱619,699	₱730,723	₱730,723
Loans and receivables:				
Cash in banks and cash equivalents	995,702,892	995,702,892	2,092,420,950	2,092,420,950
Contracts receivables	2,846,009,089	2,846,009,089	2,875,514,044	2,875,514,044
Lease receivables	1,063,368	1,063,368	29,331,547	29,331,547
Receivables from buyers	297,345,223	297,345,223	317,882,545	317,882,545
Receivables from tenants	23,449,932	23,449,932	23,603,282	23,603,282
Others	178,709,008	178,709,008	156,975,096	156,975,096
Refundable deposits**	153,564,218	153,564,218	145,375,156	145,375,156
	<b>₱4,496,463,429</b>	<b>₱4,496,463,429</b>	<b>₱5,641,833,343</b>	<b>₱5,641,833,343</b>
<b>Financial Liabilities</b>				
Other financial liabilities:				
Trade and other payables:				
Accounts payable	₱377,003,462	₱377,003,462	₱512,896,834	₱512,896,834
Retentions payable	697,880,250	697,880,250	690,714,226	690,714,226
Accrued expenses	1,886,297,068	1,886,297,068	1,784,460,547	1,784,460,547
Payables to related parties	577,835,453	577,835,453	583,669,830	583,669,830
Loans payable	1,056,447,678	1,052,508,367	1,196,018,510	1,191,558,763
Payables to landowners	3,993,100,970	4,107,122,310	2,796,269,230	2,876,115,537
Security deposits***	396,599,807	359,930,410	387,620,205	351,781,057
	<b>₱8,985,164,688</b>	<b>₱9,058,577,320</b>	<b>₱7,951,649,382</b>	<b>₱7,991,196,794</b>

\*Presented as part of "Other current assets" account.

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

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

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

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

The carrying values of cash and cash equivalents, trade and other receivables (except for the noncurrent portion of contracts receivables), trade and other payables, and payables to related parties approximate their fair values due to the short-term nature of these financial instruments.

*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 2.67% to 3.89% as of March 31, 2016 and December 31, 2015.

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

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

As of March 31, 2016 and December 31, 2015, there are no financial instruments measured at fair value under Levels 1, 2 and 3. There was no transfer between hierarchies in 2016 and 2015.

**Financial Risk Management Objectives and Policies**

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

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

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

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

***Credit risk***

Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group's credit risks are primarily attributable to 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, deposits in escrow and refundable deposits represent the Group's maximum exposure to credit risk.

As of March 31, 2016 and December 31, 2015, the Group's maximum exposure to credit risk for the components of the consolidated statements of financial position follows:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Loans and receivables:</b>		
Cash in banks and cash equivalents	<b>₱995,702,892</b>	₱2,092,420,950
Trade and other receivables:		
Contracts receivables	<b>2,846,009,089</b>	2,875,514,044
Lease receivables	<b>1,063,368</b>	29,331,547
Receivable from buyers	<b>297,345,223</b>	317,882,545
Receivable from tenants	<b>23,449,932</b>	23,603,282
Others	<b>178,709,008</b>	156,975,096
Refundable deposits	<b>153,564,218</b>	145,375,156
	<b>₱4,495,843,730</b>	<b>₱5,641,102,620</b>

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

The tables on the next page show the credit quality of the Group's financial assets:



As of March 31, 2016:

	Neither past due nor impaired		Past due but not impaired	Total
	High Grade	Medium Grade		
Cash in banks and cash equivalents	₱995,702,892	₱-	₱-	₱995,702,892
Trade and other receivables:				
Contracts receivables	-	2,224,235,516	621,773,573	2,846,009,089
Lease receivables	-	1,063,368	-	1,063,368
Receivable from buyers	-	297,345,223	-	297,345,223
Receivables from tenants	-	20,956,672	2,493,260,	23,449,932
Others	-	178,709,008	-	178,709,008
Refundable deposits	-	-	153,564,218	153,564,218
	₱995,702,892	₱2,722,309,787	₱777,831,051	₱4,495,843,730

As of December 31, 2015:

	Neither past due nor impaired		Past due but not impaired	Total
	High Grade	Medium Grade		
Cash in banks and cash equivalents	₱2,092,420,950	₱-	₱-	₱2,092,420,950
Trade and other receivables:				
Contracts receivables	-	2,117,096,584	758,417,460	2,875,514,044
Lease receivables	-	4,414,716	24,916,831	29,331,547
Receivable from buyers	-	317,882,545	-	317,882,545
Receivables from tenants	-	21,031,557	2,571,725	23,603,282
Others	-	156,975,096	-	156,975,096
Refundable deposits	-	-	145,375,156	145,375,156
	₱2,092,420,950	₱2,617,400,498	₱931,281,172	₱5,641,102,620

The credit quality of the financial assets was determined as follows:

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

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

As of March 31, 2016:

	Less than	30 - 60 days	More than	Total
	30 days		60 days	
Loans and receivables:				
Trade and other receivables:				
Contracts receivables	₱20,022,463	₱15,402,314	₱586,348,796	₱621,773,573
Receivable from tenants	513,230	330,450	1,649,580	2,493,260
Refundable deposits	-	-	153,564,218	153,564,218
	₱20,535,693	₱15,732,764	₱741,562,594	₱777,831,051

As of December 31, 2015:

	Less than 30 days	30-60 days	More than 60 days	Total
<b>Loans and receivables:</b>				
<b>Trade and other receivables:</b>				
Contracts receivables	₱20,665,097	₱20,102,957	₱717,649,406	₱758,417,460
Lease receivables	1,045,100	15,487,917	8,383,814	24,916,831
Receivable from tenants	1,264,998	126,462	1,180,265	2,571,725
Refundable deposits	—	—	145,375,156	145,375,156
	₱22,975,195	₱35,717,336	₱872,588,641	₱931,281,172

**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 following tables 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 March 31, 2016:

	Less than 1 year	1 - 5 years	More than 5 years	Total
<b>Financial liabilities:</b>				
<b>Trade and other payables:</b>				
Accounts payables	₱377,003,462	₱—	₱—	₱377,003,462
Retentions payable	697,880,250	—	—	697,880,250
Accrued expenses	1,886,297,068	—	—	1,886,297,068
Payables to related parties	577,835,453	—	—	577,835,453
Loans payable	476,014,679	580,432,999	—	1,056,447,678
Payable to landowners	777,736,507	3,215,364,463	—	3,993,100,970
Security deposits	105,086,008	291,513,799	—	396,599,807
	₱4,897,853,427	₱4,087,311,261	₱—	₱8,985,164,688
<b>Financial assets:</b>				
Cash in banks and cash equivalents	₱995,702,892	₱—	₱—	₱995,702,892
Trade and other receivables*	2,525,176,754	345,345,635	—	2,870,522,389
	₱3,520,879,646	₱345,345,635	₱—	₱3,866,225,281

\*Excluding other receivables amounting to ₱476.1 million.

As of December 31, 2015:

	Less than 1 year	1 - 5 years	More than 5 years	Total
<b>Financial liabilities:</b>				
<b>Trade and other payables:</b>				
Accounts payables	₱512,896,834	₱—	₱—	₱512,896,834
Retentions payable	690,714,226	—	—	690,714,226
Accrued expenses	1,784,460,547	—	—	1,784,460,547
Payables to related parties	583,669,830	—	—	583,669,830
Loans payable	476,014,679	720,003,831	—	1,196,018,510
Payable to landowners	875,695,891	1,920,573,339	—	2,796,269,230
Security deposits	105,114,742	282,505,463	—	387,620,205
	₱5,028,566,749	₱2,923,082,633	₱—	₱7,951,649,382

	Less than 1 year	1 - 5 years	More than 5 years	Total
<b>Financial assets:</b>				
Cash in banks and cash equivalents	₱2,092,420,950	₱-	₱-	₱2,092,420,950
Trade and other receivables*	2,576,131,242	352,317,631	-	2,928,448,873
	₱4,668,552,192	₱352,317,631	₱-	₱5,020,869,823

\*Excluding other receivables amounting to ₱474.9 million.

#### *Interest rate risk*

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

#### *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, and payables arising from related party transactions.

The following table shows the Group's foreign currency-denominated monetary assets and its peso equivalents as of March 31 2016 and December 31, 2015:

	US Dollar Value	Peso Equivalent
<b>March 31, 2016</b>	<b>\$1,357,905</b>	<b>₱62,911,741</b>
December 31, 2015	\$1,456,207	₱68,529,101

The exchange rate used as of March 31, 2016 and December 31, 2015 is ₱46.33 to US\$1.00 and 47.06 to US\$1.00, respectively. The Group recognized net foreign exchange gain amounting to ₱0.7 million and ₱0.3 million in the first quarter of 2016 and 2015, respectively.

	March 31, 2016		December 31, 2015 (BS Ratio)	
			March 31, 2015 (P&L Ratio)	
<b>A. CURRENT RATIO</b>				
current assets	<u>13,960,404,096</u>	2.00	<u>14,803,956,946</u>	2.10
current liabilities	<u>6,994,524,675</u>		<u>7,046,017,664</u>	
<b>B. DEBT TO EQUITY RATIO</b>				
total liabilities	<u>11,257,769,075</u>	0.70	<u>10,168,313,241</u>	0.64
stockholders' equity	<u>15,990,443,621</u>		<u>15,928,868,126</u>	
<b>C. QUICK RATIO</b>				
cash & cash equivalent	996,322,591		2,093,151,673	
receivable(current)	<u>2,904,580,986</u>		<u>3,050,988,883</u>	
	<u>3,900,903,577</u>	0.56	<u>5,144,140,556</u>	0.73
current liabilities	<u>6,994,524,675</u>		<u>7,046,017,664</u>	
<b>D. ASSET TO EQUITY RATIO</b>				
total assets	<u>27,248,212,696</u>	1.70	<u>26,097,181,367</u>	1.64
total equity	<u>15,990,443,621</u>		<u>15,928,868,126</u>	
<b>E. INTEREST COVERAGE RATIO</b>				
EBIT	<u>184,760,085</u>	2.49	<u>110,655,491</u>	4.03
Interest expense	<u>74,246,136</u>		<u>27,478,333</u>	
<b>F. GP RATE</b>				
gross profit	<u>336,111,969</u>	0.51	<u>290,190,827</u>	0.45
net revenue	<u>654,402,710</u>		<u>644,456,312</u>	
<b>G. BASIC EARNINGS PER SHARE</b>				
net income after tax	<u>61,575,495</u>	0.011	<u>50,919,634</u>	0.010
weighted average no of shares	<u>5,723,007,872</u>		<u>4,973,017,872</u>	
<b>H. DILUTED EARNINGS PER SHARE</b>				
	<u>61,575,495</u>	0.011	<u>50,919,634</u>	0.010
	<u>5,723,007,872</u>		<u>4,973,017,872</u>	

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
Transportation equipment	5
Furniture, fixtures and equipment	3 to 5
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 the "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.

#### Deposit for Future Stock Subscription

Deposit for future stock subscription represents the amount received which will be applied as payment in exchange for a fixed number of the Group's own equity instruments. It is classified as an equity item if there is sufficient unissued authorized capital stock, or if in case the unissued authorized capital stock is insufficient to cover the amount of deposit, (1) the BOD and stockholders have approved a proposed increase in authorized capital stock for which a deposit was received, and (2) the proposed increase was filed with the SEC; otherwise, the deposit is classified as a liability.

#### Capital Stock and Additional Paid-In Capital

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

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

#### Treasury Shares

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

#### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend

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

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

#### Revenue and Cost Recognition

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

#### *Real estate sales*

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

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

#### *Cost of real estate sales*

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

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

#### *Rental income*

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

#### *Charges and expenses recoverable from tenants*

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

#### *Cost of rental income*

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

#### *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.

#### Expense Recognition

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

#### *Selling and general and administrative expenses*

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

#### Commissions

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

#### Borrowing Costs

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

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

#### Retirement Benefits Cost

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

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

Retirement benefits costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset.

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

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

### 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 consolidated statement of income, any exchange component of that gain or loss shall be recognized in 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 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 noncancellable 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.

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### **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 parent company 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 are reflected in the consolidated financial statements as they become reasonably determinable

#### *Revenue recognition*

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

#### *Classification of financial instruments*

The Group classifies a financial instrument or its component on initial recognition and re-evaluates this designation at every financial reporting date as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement

and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

*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 ₱ 308.7 million and ₱258.0 million in the first quarters of 2016 and 2015, respectively.

*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 under "Outside services" amounted to ₱ 2.8 million in the first quarter of 2016 and 2015. Additional rental expense amounting to ₱9.8 million included under "Cost of rental income" was recognized in the first quarter of 2016 and 2015 related 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 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 ₱ 12,528.9 million and ₱8,582.3 million as of March 31, 2016 and ₱10,643.8 million and ₱8,357.1 million as of December 31, 2015, respectively.

*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 ₱12,528.9 million and ₱42.7 million as of March 31, 2016 and ₱10,643.8 million and ₱42.9 million as of December 31, 2015, respectively.

### Value-added Tax (VAT)

VAT is equal to 12% of the purchase or selling price of the VATable goods and services. VAT imposed on purchases is called input VAT while VAT imposed on sales is called output VAT. Input VAT and output VAT are presented at net in the consolidated statement of financial position. Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of the asset or as part of the expense item, as applicable. VAT on the purchase of assets classified as capital assets exceeding a certain threshold as provided by the taxing authority is recognized as deferred input VAT and is amortized within the life of the asset or five years, whichever is shorter.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets", "Other noncurrent assets", or "Trade and other payables" accounts in the consolidated statement of financial position.

### 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:

	<u>Years</u>
Buildings	25 to 40
Residential unit	5
Land improvements	5

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

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

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

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