Delivering ELITE Experiences





Empire East

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DELIVERING ELITE EXPERIENCES

LIFE IS ALL ABOUT EXPERIENCES.

At Empire East Land Holdings Inc., the ELITE brand is all about elevating such experiences so that people enjoy the utmost value.

The brand's signature lifestyle upgrades the kind of real estate offerings Empire East is known for, aiming for an ever-higher standard of quality. Empire East's commitment to its real estate credo encompasses the sustainability of its properties, as well as the well-being and satisfaction of its customers.

Today, Filipino families that choose to be part of an Empire East development enjoy the privilege of multifaceted and uplifting experiences, whether in the privacy of their own homes or in the shared spaces where they come together and interact with the members of their community.

In this year's annual report, the company shares how Empire East Elite has positioned its most current residential projects to meet the market's uncompromising need for value.

Message To Stockholders

The evolution of the Empire East brand has allowed the company to effectively target the needs of an ever-changing market. Throughout our history, we have introduced exciting innovations in the property industry–all uniquely centered on our customers and the lifestyles they lead. From transit-oriented developments to resort-style communities, our projects are settings that empower people and enrich experiences. The products in our portfolio continue to resonate with Filipino homebuyers and investors, as seen in our performance in 2017.

Last year, Empire East's net income increased to P632 million, up from P601.7 million in 2016. Meanwhile, we registered real estate sales of P4.25 billion, which grew from P4.12 billion in 2016. Our numbers point not only to our consistency when it comes to our selling activities, but also our commitment to keeping to our development and turnover timetables. In 2017, construction continued to be aggressive for 17 residential towers. We are set to finish and hand over some 5 to 7 towers this 2018.

While our leadership in the middle-income segment remains strong, we have always been receptive to new growth opportunities, allowing us to further expand our reach and capture a new breed of customers. It is interesting to note that over the past few years, Empire East's core market enjoyed increased affluence and purchasing power. The term "affordable luxury" proved to be successful in positioning the company's offerings. However, the growing sophistication of the market presented us with the chance to refine our messaging and communicate what our developments have always offered–in a language that is in tune with a highly engaged, digitally connected and socially conscious audience.

Elite experiences come with the company's definition of affordable luxury. Empire East recognized the need to bring this message to the forefront, which is why the ELITE brand emphasizes even more those projects that showcase increased mobility and accessibility to conveniences, less dense layouts, bigger unit cuts or upgraded amenities. These features translate to better experiences, a higher standard of living, and the kind of sustainability that is very important to the modern market today.

"While our leadership in the middle-income segment remains strong, we have always been receptive to new growth opportunities, allowing us to further expand our reach and capture a new breed of customers."

The company recently introduced The Paddington Place in Mandaluyong City under the ELITE brand. A total of 2,581 units make up the project, and the presence of penthouse units address the more upscale lifestyle requirements of a certain clientele. In addition, a smaller number of units per floor throughout the development satisfies the demand for lower density in the context of residential condominium living. Tower 1 of The Paddington Place has put 645 units on stream–it is currently 71 percent taken up.

An offering at The Paddington Place that we at Empire East are very excited about is a two-level lifestyle mall called "The Pad," which is an essential element of the community. It will be managed by Megaworld Lifestyle Malls, which has made retail developments such as Uptown Mall, Venice Grand Canal Mall and Southwoods Mall so successful.

Our six-tower Kasara project in Pasig City continues to be a powerhouse of a project where elite experiences are concerned. A leisure-motivated market that identifies strongly with the need for work-life balance and overall wellness has found in Kasara the qualities of an ideal future home. We have reached a 74 percent sales mark for this development, and such demand emboldens us to fast-track our development schedules.

Kasara's Tower 1 and Tower 2 are over 90 and 80 percent complete, respectively. Construction is also under way for the third and fourth towers.

Empire East plans to launch about 1,900 residential units for The Paddington Place and Kasara this 2018.

Sales for our Covent Garden in Sta. Mesa, Manila, and Mango Tree Residences in San Juan City, have reached the 90 percent and 66 percent mark, respectively. With their strategic locations and their diversity of residential options, we expect the take-up of these projects to grow at a steady pace this year. Meanwhile, our four-tower San Lorenzo Place in the Makati CBD is nearly sold out, with ready-for-occupancy units available at Tower 1 and Tower 2.

We at the company look forward to capitalizing on future possibilities that will make our brand even more relevant to the ever-changing circumstances and sensibilities of Filipinos. Our land bank has P2.9 billion worth of properties, with an aggregate area of 404 hectares, that will allow us to infuse our portfolio with new real estate concepts when we see the most advantageous opportunity.

Speaking of opportunity, the company saw the chance to actively grow its corporate social responsibility efforts in 2017. Our call to arms, "Empire East Cares," mobilized small-scale on-ground CSR activations that proved extremely personal to Team Empire East. Our activities–ranging from a feeding program and a partnership with Gawad Kalinga for the building of homes to reaching out to families affected by the Marawi conflict as well as art initiatives for elementary students–were recognized this May 2018 at the 6th PropertyGuru Philippines Property Awards.

During the same event, Empire East's The Rochester project in Pasig City was cited as "Highly Commended" in the category "Best Mid-End Property Development in Metro Manila."

While such recognition publicly affirms what the company is doing on a daily basis, we at Empire East are focused on giving our customers the best value through creative and innovative real estate projects that are also an abundant source of positive experiences. We are also committed to giving back to society as much as we are to being profitable as a business. Our confidence is high that Empire East will continue to achieve greater things, with the support of our customers, our stockholders and our stakeholders.

Anthony Charlemagne C. Yu
President and CEO

THE PADDINGTON PLACE

Empire East understands its customers' need to have instant access to the bustling activity and vibrancy of their chosen cosmopolitan location. The company's **THE PADDINGTON PLACE** serves as such a status symbol with an address in Mandaluyong City that brings high-end destinations in the Ortigas CBD such as Shangri-La Plaza, EDSA Shangri-La Manila and The Podium within easy reach.

With 2,581 studios, one- to two-bedroom residences and penthouse suites, the four-tower project opens opportunities for premier living. Privacy and exclusivity is offered with a layout featuring only 11 to 18 units per floor for Tower 1 and 7 to 15 units per floor for Tower 2.

THE PADDINGTON PLACE

Recreational pursuits at The Paddington Place are centered at the seventh level, where a 25-meter lap pool, children's pool, garden deck, terraced gardens, function rooms, function hall and indoor playroom are made available.

A two-level shopping mall, The Pad, serves as an extended amenity for homeowners.

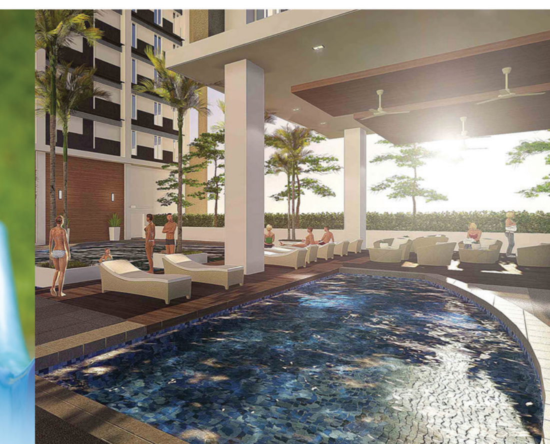
Tower 1 of The Paddington Place, with 645 units, is already 71 percent sold.

COVENT GARDEN

Long-time residents of Sta. Mesa can attest to its evolution and growth as a residential haven. While the Sta. Mesa district may have become densely populated through the years, Empire East has recognized its comfortable appeal to the individuals and families whose lives and experiences are closely intertwined with its location.

Empire East introduced **COVENT GARDEN** as an option for a new and young generation of discriminating homebuyers. The development is an upgraded iteration of a high-rise home of thoughtfully planned conveniences.

COVENT GARDEN



Covent Garden's two 30-storey towers host 1,093 units in studio and one- and two-bedroom layouts. Its fifth-level amenity deck features a 22-meter lap pool, children's pool, playground, fitness gym, jogging path, outdoor bar, lounge and function hall.

Work on the project has reached the 21.54 percent mark, while its units are 90 percent taken up.

MANGO TREE RESIDENCES

Those that call San Juan City home have the choice to level up their way of life at **MANGO TREE RESIDENCES**, the first “on-stilts” development of Empire East that is also lined with fruit-bearing mango trees.

Designed by Empire East as a private, peaceful and laidback community, the two-tower project offers 594 studios, one- and two-bedroom units, suites with one or two bedrooms and a patio, as well as penthouse units.

MANGO TREE
RESIDENCES

Would-be residents are given free rein of the recreational areas at the ground and seventh levels, which have a 25-meter lap pool, children's pool, fitness gym, alfresco lounge, function rooms, yoga station and garden deck.

Construction for Mango Tree Residences is already in its first stages. The project is 66 percent sold.

KASARA

Urban Resort Residences

Combining the most-coveted qualities of a resort and a residential condominium home, Empire East's **KASARA** is a development created to bring urban homeowners a variety of vacation-style experiences.

The six-tower project opens up various avenues for play at the ground and fourth levels, featuring a one-of-a-kind lake-inspired swimming pool and other water-based amenities, a clubhouse and bar, an activity area, a function room, basketball court, garden with relaxing walkways and jogging paths.

KASARA
Urban Resort Residences

Kasara has 3,268 units that come in studio, one- and two-bedroom and penthouse layouts. The studios to two-bedroom residences are available with either a balcony or patio.

A well-planned location means that homeowners can easily go from their tranquil setting to the dynamic network of destinations at the Ortigas CBD, as well as those in Makati and Fort Bonifacio.

Take-up for the project has reached the 74 percent mark. Towers 1 and 2 are 93.05 and 81.40 percent complete, respectively. Towers 3 and 5 are undergoing excavation, dewatering and clearing works.

San Lorenzo Place

Makati CBD Luxury Residences

Empire East's foray into offering luxury Makati CBD residences established the company's commitment to satisfy an upscale professional market looking for a community that paid homage to its fast-paced lifestyle.

Strategically located along Chino Roces Avenue and connected to the mass transit system, SAN LORENZO PLACE caters to residents that are not only on the go, but also particular about the address they come home to.

SanLorenzoPlace

Makati CBD Luxury Residences

The four-tower development showcases 2,173 residences with one to two bedrooms, with options for a combined unit–up to 77 square meters in size–and with three bedrooms. At the sixth level are a 20-meter lap pool, jacuzzi, water play area, sunbathing deck, club house, tennis court, fitness gym and day care center.

San Lorenzo Place is nearly sold out. Towers 1 and 2 feature ready-for-occupancy units, while work for Tower 3 is almost complete.

Our Other Projects

LITTLE BAGUIO TERRACES

Pioneer Woodlands




The Rochester

THE SONOMA

Empire East *cares*

Company employees, together with Empire East President and CEO Atty. Anthony Charlemagne Yu (in blue shirt), hand out goods to beneficiaries for the company's "strEATs" Feeding Program

Employee volunteers at the Gawad Kalinga site in Muntinlupa

Empire East is committed to both doing good business and doing good for society. By giving back through various initiatives, campaigns and activities, the company is able to further impact the landscape in a positive way, playing an important role in empowering people, changing lives and inspiring national progress.

In 2017, Empire East, through its employees and officers, took part in a feeding program, helped build homes, offered humanitarian aid and encouraged students' creativity through art, as part of its corporate social responsibility efforts under the banner program "Empire East Cares."

On July 7, disadvantaged families and children received food items and meals from the company as part of its "strEATs" feeding program. The beneficiaries converged at the Cuneta Sports Complex in Pasay City, Remedios Circle in Malate, and The Baywalk in Roxas Boulevard.

strEATs
"A DECENT MEAL FOR A DAY"

Meanwhile, for another program called "Proof of Love: Families Under One Roof (pROOFs), Empire East partnered with Gawad Kalinga to help build homes for 38 families in Muntinlupa City. On July 15, about 50 employee volunteers were at the site to fulfill the company's commitment. Gawad Kalinga is a Philippine-based movement that aims to end poverty for 5 million families.

pROOFs
PROOF OF LOVE: FAMILIES UNDER ONE ROOF

Empire East cares

Empire East President and CEO Atty. Anthony Charlemagne C. Yu (in cap) holds a ceremonial key indicating the company's P7.5 million donation to help provide homes for needy families. He is photographed on site at the groundbreaking of multiple GK housing units, together with (l to r) Empire East AVP for Legal Atty. Mick Asuncion, Muntinlupa Mayor Jaime Fresnedi, Gawad Kalinga Engineer Francis Balagtas and VP for Property Development Division Arminius Madridejos.

A donation of blankets from Empire East was received by Kaya Natin! on July 21, to be distributed to families in Marawi. Kaya Natin! Movement Lead Convener Harvey Que poses with Empire East President and CEO Atty. Anthony Charlemagne Yu.

Not forgetting the plight of those affected by the conflict in Marawi City in Mindanao, Empire East, through its partner Kaya Natin!, reached out by donating much-needed blankets for the families based there under the company's Blanket Project. Kaya Natin! is a non-profit and non-government organization that promotes good governance and ethical leadership in the Philippines.

PROOFS
PROOF OF LOVE: FAMILIES UNDER ONE ROOF

The Blanket Project
Warm a Heart, Save a Soul.

Empire East cares

Happy, vibrant scenes at Empire East's "heART" workshop at New Little Baguio Elementary School

For its "heART" program, Empire East gave students at New Little Baguio Elementary School in Sta. Maria, Laguna, the chance to express themselves through an art workshop and competition. On August 28, the students received art materials and designed their own tumblers and cakes, among other activities.

Empire East cares

heArt

Discover the wonders of art.

Empire East is recognized in the Philippines Property Awards this 2018

Empire East was recognized for its 2017 corporate social responsibility efforts for the first time at the 6th PropertyGuru Philippines Property Awards on May 11, 2018, held at the Fairmont Hotel in Makati City. Empire East President and CEO Atty. Anthony Charlemagne Yu is shown holding the award (top photo, left). With him is Terry Blackburn, Managing Director of Asia Property Awards and *Property Report* magazine.

Meanwhile, the company's The Rochester received a "Highly Commended" citation in the category "Best Mid End Property Development in Metro Manila" (bottom photo).

Statement of Management's Responsibility for Financial Statements

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

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

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

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

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

ANDREW L. TAN Chairman of the Board	ANTHONY CHARLEMAGNE C. YU Chief Executive Officer	EVELYN G. CACHO Chief Financial Officer

SUBSCRIBED AND SWORN to me before this April 24 of 2018 affiant exhibiting to me their Tax Identification Number (TIN) as follows:

Andrew L. Tan	125-960-003
Anthony Charlemagne C. Yu	132-173-451
Evelyn G. Gacho	127-326-686

Doc. No. 109
Page No. 022
Book No. XVI
Series of 2018

AMIEL VICTOR A. ASUNCION
NOTARY PUBLIC
ROLL NO. 59612
MAKATI CITY, PHILIPPINES

Amiel Victor A. Asuncion
Notary Public for Makati City
Appointment No. M-194
Until Dec 31 2018
Roll of Atty No 59612
MCLE Compliance No V-0018475 Mar 14, 2019
IBP OR No 024074 Jan 4 2018
PTR No 6615781 Jan 4 2018 Makati City
2F-B11 Tower 4 San Lorenzo Place
Chino Roces cor. EDSA, Makati City

Punongbayan & Araullo
An instinct for growth™

Report of Independent Auditors

The Board of Directors and Stockholders
Empire East Land Holdings, Inc. and Subsidiaries
(A Subsidiary of Megaworld Corporation)
12th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

(a) Revenue Recognition for Sale of Pre-Completed Properties

Description of the Matter

The Group recognizes revenue from sale of pre-completed properties using the percentage-of-completion method after establishing that collection of the total contract price is reasonably assured, which is established when a certain percentage of the total contract price has already been collected. Further, under the percentage-of-completion method, the Group recognizes gross profit based on the stage of completion as estimated by management with the assistance of project engineers.

Revenue recognition from sale of pre-completed properties was significant to our audit as it comprises majority of total revenues of the Group. Further, revenue recognition involves significant management judgments and estimates. Management applies judgment in ascertaining the collectability of the contract price, and estimating the stage of completion and contract costs of the real estate project. An error in application of judgment and estimate could cause a material misstatement in the consolidated financial statements.

The Group's policy for revenue recognition is more fully described in Note 2 to the consolidated financial statements.

How the Matter was Addressed in the Audit

We tested the design and operating effectiveness of internal controls over the process of recognizing revenue from real estate sales. We also tested, on a sample basis, the application of the percentage of collection threshold on sales contracts entered during the year. We also tested the reasonableness of the collection threshold as basis of determining revenue recognition criterion on the collectability of contract price.

In testing the application of percentage-of-completion method, we ascertained the qualification of project engineers who certified the stage of completion of projects. We also tested the reasonableness of percentage of completion by performing physical inspection of selected projects under development and comparing our observations of physical stage of completion with cost-to-cost budgetary estimate. Further, we evaluated the reasonableness of estimated contract costs with reference to contractors' and suppliers' quotes and historical costs of similar and recently completed projects.

(b) Net Realizable Values of Real Estate Inventories

Description of the Matter

Real estate inventories principally comprise of residential and condominium units for sale, land held for future development and property development costs amounting to P19.2 billion, P2.9 billion and P1.9 billion, respectively, as of December 31, 2017. Future realization of inventories is affected by price changes in the costs incurred necessary to complete and make a sale. Due to the significant carrying amount of inventories, and the high level of judgment in estimating its lower of cost or net realizable value (NRV), we considered the valuation of inventories as significant to our audit.

The Group's disclosures on accounting policy, estimation uncertainty and Real Estate Inventories account are presented in Notes 2, 3, 7 and 10 to the consolidated financial statements.

How the Matter was Addressed in the Audit

We reviewed design effectiveness of the Company's internal control regarding inventory costing measured at lower of cost or NRV. We also performed a price test, on a sample basis, of inventory items by examining supporting documents such as, but not limited to, construction contracts for real estate inventories, purchase contracts and invoices and we determined whether the application of the lower of cost or NRV is appropriate and consistent

with prior periods.

(c) Consolidation Process

Description of the Matter

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

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

How the Matter was Addressed in the Audit

We obtained understanding of the Group structure and its consolidation process including the procedures for identifying intercompany transactions and reconciling intercompany balances. We tested significant consolidation adjustments which include elimination of intercompany revenues, expenses and investments, reversal of unrealized fair value adjustments on intercompany investments, and recognition of equity transactions to measure non-controlling interest.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Renan A. Piamonte.

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 6616017, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1363-AR-1 (until Mar. 1, 2020)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-37-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 23, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 1,280,896,149**	P 1,008,997,919
Trade and other receivables - net	6	**5,741,284,148**	5,021,310,911
Advances to related parties	23	**2,502,356,313**	2,311,257,801
Residential and condominium units for sale	7	**19,220,960,848**	18,933,860,565
Property development costs	7	**1,908,888,955**	1,903,775,929
Prepayments and other current assets	2	**338,912,664**	381,730,305
Total Current Assets		**30,993,299,077**	29,560,933,430
NON-CURRENT ASSETS			
Trade and other receivables	6	**3,852,115,476**	2,782,264,393
Available-for-sale financial assets	8	**1,801,600,000**	1,439,028,000
Advances to landowners and joint ventures	9	**306,887,895**	306,871,395
Land held for future development	10	**2,925,390,962**	2,925,390,962
Investments in associates	11	**1,162,295,541**	1,162,873,746
Property and equipment - net	12	**198,143,172**	155,444,595
Investment property - net	13	**118,555,626**	135,249,248
Other non-current assets	1	**84,524,302**	84,702,690
Total Non-current Assets		**10,449,512,974**	8,991,825,029
TOTAL ASSETS		**P 41,442,812,051**	P 38,552,758,459

EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
(A Subsidiary of Megaworld Corporation)

	Notes	2017	2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	**P 751,412,976**	P 355,115,433
Trade and other payables	15	**1,765,149,256**	1,451,139,792
Deferred gross profit on real estate sales	2	**95,770,220**	53,574,516
Customers' deposits	16	**2,681,448,477**	2,494,778,962
Advances from related parties	23	**3,678,125,997**	3,012,266,199
Reserve for property development	2	**509,788,697**	387,962,962
Income tax payable		**6,495,737**	20,510,077
Other current liabilities	17	**678,774,641**	584,715,486
Total Current Liabilities		**10,166,966,001**	8,360,063,427
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	**1,250,000,000**	1,603,434,043
Deferred gross profit on real estate sales	2	**225,437,267**	116,609,460
Reserve for property development	2	**1,583,608,462**	1,425,945,593
Retirement benefit obligation	21	**570,284,259**	528,514,895
Deferred tax liabilities - net	22	**1,705,148,472**	1,604,579,980
Total Non-current Liabilities		**5,334,478,460**	5,279,083,971
Total Liabilities		**15,501,444,461**	13,639,147,398
EQUITY			
Attributable to the Parent Company's stockholders			
Capital stock	24	**14,803,455,238**	14,803,455,238
Additional paid-in capital		**4,307,887,996**	4,307,887,996
Treasury stock - at cost	24	**(102,106,658)**	(102,106,658)
Revaluation reserves	8, 21, 24	**863,624,425**	468,066,229
Retained earnings	24	**5,447,545,430**	4,815,887,029
Total equity attributable to the Parent Company's stockholders		**25,320,406,431**	24,293,189,834
Non-controlling interests		**620,961,159**	620,421,227
Total Equity		**25,941,367,590**	24,913,611,061
TOTAL LIABILITIES AND EQUITY		**P 41,442,812,051**	P 38,552,758,459

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
REVENUES AND INCOME				
Real estate sales	2	**P 4,250,213,492**	P 4,124,838,936	P 4,017,372,548
Finance income	20	**274,684,759**	323,606,513	324,162,386
Rental income	13, 26	**146,416,970**	105,345,526	106,051,918
Commission income	23	**119,381,451**	126,759,525	143,273,471
Realized gross profit on prior years' sales	2	**63,883,544**	69,595,743	64,055,734
Equity share in net earnings (losses) of associates	11	**(5 78,205)**	813,301	(9 ,006,812)
Other income	19	**424,250,615**	446,300,476	412,755,308
		5,278,252,626	5,197,260,020	5,058,664,553
COSTS AND EXPENSES				
Cost of real estate sales	18	**2,499,835,522**	2,652,093,167	2,615,303,158
Salaries and employee benefits	21	**434,731,011**	427,968,009	411,242,638
Finance costs	20	**219,347,165**	199,569,995	177,380,882
Deferred gross profit on current year's sales	2	**214,907,055**	96,632,422	53,908,791
Commissions		**174,131,342**	182,654,092	248,760,584
Advertising and promotion		**144,995,896**	100,375,950	150,278,865
Taxes and licenses	10, 13	**123,821,678**	115,735,507	37,285,107
Travel and transportation		**109,148,913**	109,370,580	164,333,838
Depreciation and amortization	12, 13	**33,727,522**	33,826,975	34,217,740
Income taxes	22	**286,638,375**	243,903,785	232,167,646
Other expenses	19	**405,030,619**	434,053,785	383,272,046
		4,646,315,098	4,596,184,267	4,508,151,295
NET PROFIT		**631,937,528**	601,075,753	550,513,258
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently through profit or loss –				
Remeasurements on retirement benefit obligation	21	**47,089,266**	3,396,922	25,260,742
Tax income (expense) on remeasurement	22	**(13,842,265)**	(1 ,019,077)	(7,454,228)
		33,247,001	2,377,845	17,806,514
Item that will be reclassified subsequently through profit or loss –				
Fair value gains (losses) on available-for-sale financial assets	8	**362,572,000**	(373,832,000)	(726,270,000)
Total Other Comprehensive Income (Loss) - net of tax		**395,819,001**	(371,454,155)	(708,463,486)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P 1,027,756,529**	P 229,621,598	(P 157,950,228)
Net profit attributable to:				
Parent company's shareholders		**P 631,658,401**	P 599,969,525	P 547,278,548
Non-controlling interest		**279,127**	1,106,228	3,234,710
		P 631,937,528	P 601,075,753	P 550,513,258
Total comprehensive income (loss) attributable to:				
Parent company's shareholders		**P 1,027,216,597**	P 228,515,370	(P 161,298,600)
Non-controlling interest		**539,932**	1,106,228	3,348,372
		P 1,027,756,529	P 229,621,598	(P 157,950,228)
EARNINGS PER SHARE - Basic and Diluted	25	**P 0.043**	P 0.041	P 0.037

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015
(Amounts in Philippine Pesos)

	Attributable to Parent Company's Shareholders							
	Capital Stock (See Note 24)	**Additional Paid-in Capital**	**Treasury Stock** (See Note 24)	**Revaluation Reserves** (See Notes 8, 21)	**Retained Earnings** (See Note 24)	**Total**	**Non-controlling Interests**	**Total**
Balance at January 1, 2017	P 14,803,455,238	P 4,307,887,996	(P 102,106,658)	P 468,066,229	P 4,815,887,029	P 24,293,189,834	P 620,421,227	P 24,913,611,061
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	631,658,401	631,658,401	279,127	631,937,528
Fair value gains on available-for-sale financial assets	-	-	-	362,572,000	-	362,572,000	-	362,572,000
Remeasurements on retirement benefit obligation	-	-	-	46,828,461	-	46,828,461	260,805	47,089,266
Tax expense on remeasurement	-	-	-	(13,842,265)	-	(13,842,265)	-	(13,842,265)
Balance at December 31, 2017	**P 14,803,455,238**	**P 4,307,887,996**	**(P 102,106,658)**	**P 863,624,425**	**P 5,447,545,430**	**P 25,320,406,431**	**P 620,961,159**	**P 25,941,367,590**
Balance at January 1, 2016	P 14,803,455,238	P 4,307,887,996	(P 102,106,658)	P 839,520,384	P 4,215,917,504	P 24,064,674,464	619,314,999	P 24,683,989,463
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	599,969,525	599,969,525	1,106,228	601,075,753
Fair value losses on available-for-sale financial assets	-	-	-	(373,832,000)	-	(373,832,000)	-	(373,832,000)
Remeasurements on retirement benefit obligation	-	-	-	3,396,922	-	3,396,922	-	3,396,922
Tax expense on remeasurement	-	-	-	(1,019,077)	-	(1,019,077)	-	(1 ,019,077)
Balance at December 31, 2016	P 14,803,455,238	P 4,307,887,996	(P 102,106,658)	P 468,066,229	P 4,815,887,029	P 24,293,189,834	P 620,421,227	P 24,913,611,061
Balance at January 1, 2015	P 14,803,455,238	P 4,307,887,996	(P 102,106,658)	P 1,548,097,532	P 3,668,638,956	P 24,225,973,064	615,966,627	P 24,841,939,691
Total comprehensive loss for the year								
Net profit for the year	-	-	-	-	547,278,548	547,278,548	3,234,710	550,513,258
Fair value losses on available-for-sale financial assets	-	-	-	(726,270,000)	-	(726,270,000)	-	(726,270,000)
Remeasurements on retirement benefit obligation	-	-	-	25,147,080	-	25,147,080	113,662	25,260,742
Tax expense on remeasurement	-	-	-	(7,454,228)	-	(7,454,228)	-	(7 ,454,228)
Balance at December 31, 2015	P 14,803,455,238	P 4,307,887,996	(P 102,106,658)	P 839,520,384	P 4,215,917,504	P 24,064,674,464	P 619,314,999	P 24,683,989,463

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 918,575,903	P 844,979,538	P 782,680,904
Adjustments for:				
Finance income	20	(274,684,759)	(288,700,513)	(289,256,386)
Finance costs	20	219,347,165	199,569,995	177,380,882
Depreciation and amortization	12, 13	33,727,522	3,826,975	34,217,740
Equity share in net losses (earnings) of associates	11	578,205	(813,301)	9,006,812
Impairment loss on receivable	6	19,837	233,152	94,375
Dividend income	20	-	(34,906,000)	(34,906,000)
Operating profit before working capital changes		897,563,873	754,189,846	679,218,327
Decrease (increase) in trade and other receivables		(1,754,371,065)	(1,540,416,065)	230,526,025
Increase in advances to related parties		(25,218,451)	(17,022,753)	(58,118,389)
Increase in residential and condominium units for sale		(197,221,827)	(570,936,279)	(1,478,407,262)
Decrease (increase) in property development costs		(5,113,026)	(14,313,200)	538,549,070
Decrease in prepayments and other current assets		42,817,641	79,634,135	196,774,448
Decrease (increase) in advances to landowners and joint ventures		(16,500)	298,510,213	170,453,857
Increase in land held for future development		-	-	(706,728,979)
Decrease (increase) in other non-current assets		178,388	(90,357)	627
Increase in trade and other payables		313,534,985	378,605,619	367,625,402
Increase (decrease) in deferred gross profit on real estate sales		151,023,511	27,036,679	(10,146,942)
Increase (decrease) in customers' deposits		186,669,515	(118,126,385)	(995,610,078)
Increase (decrease) in reserve for property development		279,488,604	(60,075,212)	444,727,657
Increase in other current liabilities		94,059,155	14,953,816	119,089,459
Increase in retirement benefit obligation		62,768,335	28,972,341	51,773,782
Cash generated from (used in) operations		46,163,138	(739,077,602)	(4 50,272,996)
Interest received		70,355,569	79,545,277	141,922,390
Cash paid for income taxes		(213,926,488)	(112,603,233)	(110,579,086)
Net Cash Used in Operating Activities		(97,407,781)	(772,135,558)	(418,929,692)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	12	(59,732,477)	(21,981,614)	(14,796,377)
Interest received		2,976,037	9,917,831	6,822,758
Dividends received		-	34,906,000	34,906,000
Proceeds from sale of property and equipment	12	-	181,205	-
Additional investment in associates	11	-	-	(877,776,747)
Net Cash From (Used in) Investing Activities		(56,756,440)	23,023,422	(850,844,366)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from additional advances from related parties	23, 31	505,494,378	5,566,893	538,840,568
Proceeds from interest-bearing loans and borrowings	14, 31	400,000,000	560,000,000	2,310,000,000
Payments of interest-bearing loans and borrowings	31	(357,136,500)	(110,453,128)	(937,518,949)
Interest paid		(89,403,977)	(93,222,309)	(30,643,843)
Repayments of advances from related parties	23, 31	(32,891,450)	(2,017,237)	(34,181,534)
Net Cash From Financing Activities		426,062,451	359,874,219	1,846,496,242
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		271,898,230	(389,237,917)	576,722,184
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,008,997,919	1,398,235,836	821,513,652
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 1,280,896,149	P 1,008,997,919	P 1,398,235,836

Supplemental Information on Non-cash Investing Activities:
In the normal course of business, the Company enters into non-cash transactions such as exchange or purchase on account of real estate and other assets and transfer of property from Land Held for Future Development to Property Development Costs or Investment Properties as the property goes through its various stages of development. These non-cash activities are not reflected in the statement of cash flows (see Note 7).

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Empire East Land Holdings, Inc. (the Company) was incorporated and registered with the Philippine Securities and change Commission (SEC) on July 15, 1994. The Company is presently engaged in the development and marketing of mid-cost housing projects in the form of condominium communities, subdivision lots and house and lot packages, and commercial units to a limited extent. The Company also leases out commercial and industrial properties.

The shares of common stock of the Company are listed at the Philippine Stock Exchange (PSE).

As of December 31, the Company holds ownership interests in the following entities:

Subsidiaries/Associates	Explanatory Notes	Percentage of Ownership 2017	2016	2015
Subsidiaries:				
Eastwood Property Holdings, Inc. (EPHI)	(a)	**100%**	100%	100%
Valle Verde Properties, Inc. (VVPI)	(b)	**100%**	100%	100%
Sherman Oak Holdings, Inc. (SOHI)	(b)	**100%**	100%	100%
Empire East Communities, Inc. (EECI)	(c)	**100%**	100%	100%
Laguna BelAir Science School, Inc. (LBASSI)	(d)	**73%**	73%	73%
Sonoma Premier Land, Inc. (SPLI)	(b)	**60%**	60%	60%
20th Century Nylon Shirt Co., Inc. (20th Century)	(e)	**100%**	100%	100%
Associates:				
Gilmore Property Marketing Associate, Inc. (GPMAI)	(b)	**47%**	47%	47%
Pacific Coast Megacity Inc. (PCMI)	(f)	**20%**	20%	20%

Explanatory Notes:
(a) Subsidiary incorporated to market real estate properties of the Group and other related parties.
(b) Subsidiaries/associate incorporated in prior years but have not yet started commercial operations as of December 31, 2017.
(c) Subsidiary incorporated in prior year but ceased its operations as a marketing arm of real estate properties in 2014.
(d) Subsidiary primarily engaged in operating a school for primary and secondary education.
(e) Subsidiary acquired in 2015 which is yet to resume its operations.
(f) Associate acquired in 2015. The Company plans to acquire 100% ownership interest over a period of five years.

The registered office, which is also the place of operations of the Company's subsidiaries and associates, is located at 21st Floor, The World Centre Building, 330 Gen. Gil Puyat Avenue, Makati City, except for EPHI, LBASSI, 20th Century and PCMI. The registered office, which is also the place of operations, of EPHI, LBASSI, 20th Century and PCMI are summarized below.

(a) EPHI – 28th Floor, The World Centre, 330 Gil Puyat Avenue, Makati City
(b) LBASSI – Brgy. Don Jose, Sta. Rosa, Laguna
(c) 20th Century – 632 Shaw Blvd. Highway Hills, Mandaluyong City
(d) PCMI – 7th Floor 1880 Building Eastwood City E. Rodriguez Jr. Ave. Bagumbayan, Quezon City

In prior years, the Company increased its ownership interest in VVPI and LBASSI resulting in 100% and 73% ownership control over the respective subsidiaries. This resulted in the recognition of goodwill which amounted to P78.3 million as of December 31, 2017 and 2016, and shown as part of Other Non-current Assets account in the consolidated statements of financial position [see Note 3.2(e)].

In February 2015, the Company acquired 100% ownership interest in 20th Century (see Note 9).

Also, in 2015, the Company invested in PCMI amounting to P877.8 million in exchange for 750,000,000 shares representing 20% ownership interest in the said company. The Company exercises significant influence over PCMI; hence, the investment is accounted as an Investment in Associate (see Note 11).

The Company is a subsidiary of Megaworld Corporation (Megaworld or parent company). Megaworld is engaged in the development of large scale mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. The parent company is presently engaged in property-related activities, such as, project design, construction and property management. Megaworld is 67.25% owned by Alliance Global Group, Inc. (AGI), the Company's ultimate parent company. AGI is a holding company with diversified investments in food and beverage, real estate, tourism-entertainment and gaming and quick service restaurant businesses. The shares of common stock of both Megaworld and AGI are listed at the PSE.

On December 27, 2017, the SEC approved the change in the Company's registered office and principal place of business from 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City to 12th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City. The related approval from the Bureau of Internal Revenue (BIR) was not yet obtained as of the date the financial statements were authorized for issue.

Megaworld's registered office, as of December 31, 2017, is located at the 30th Floor of the same building as that of the Company. AGI's registered office is located at 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriquez Jr. Avenue, Bagumbayan, Quezon City. These entities' registered offices are also their respective principal places of business.

The consolidated financial statements of Empire East Land Holdings, Inc. and Subsidiaries (the Group) as of and for the year ended December 31, 2017 (including the comparative consolidated financial statements as of December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Company's Board of Directors (BOD) on March 23, 2018.

EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
(A Subsidiary of Megaworld Corporation)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. The Group presents all items of income and expenses in a single statement of comprehensive income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

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

Items included in the consolidated financial statements of the Group are measured using the Group's functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 that are Relevant to the Group

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative

PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvements to PFRS (2014-2016 Cycle) PFRS 12	:	Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale

Discussed below and in the succeeding page are the relevant information about these amendments and improvement.

(i) PAS 7 (Amendments), *Statement of Cash Flows* – Disclosure Initiative. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:

(i) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and,

(ii) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current year and has not disclosed comparative figures as allowed by the transitional provisions. A reconciliation between the opening and closing balances of liabilities arising from financing activities, which includes both cash and non-cash changes are presented in Note 31.

(ii) PAS 12 (Amendments), *Income Taxes* – Recognition of Deferred Tax Assets for Unrealized Losses. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of these amendments has no impact on the Group's consolidated financial statements

EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
(A Subsidiary of Megaworld Corporation)

(iii) Annual Improvements to PFRS (2014-2016 Cycle). Among the improvements, PFRS 12 (Amendments), *Disclosures of Interest in Other Entities*, is relevant to the Group but have no material impact on the Group's consolidated financial statements. The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. The application of this pronouncement did not have an impact on the Group's consolidated financial statements.

(b) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS, interpretations, improvements and amendments to existing standards effective for annual periods subsequent to 2017 which are adopted by the FRSC. Management will adopt the relevant pronouncements as discussed below and in the succeeding pages in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements.

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. Management has assessed that this amendment has no significant impact on the Group's consolidated financial statements.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVTOCI) if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The standard also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment of the Group's financial assets and financial liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- On classification and measurement of the Group's financial assets, management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects the majority of trade and other receivables to continue to be accounted for at amortized cost.

- Available-for-sale (AFS) financial assets is composed of listed equity securities (see Note 8). In applying PFRS 9 (2014), the Group shall make an irrevocable designation whether these equity securities shall be classified as financial assets at FVTPL or at FVTOCI. The Group initially assessed that these equity securities shall be designated, on date of initial application, as financial assets at FVTOCI. Thus, these instruments will continue to be measured at fair value, with market-to-market fluctuations and realized gain (loss) on sale directly recognized in other comprehensive income.

- The expected credit loss model will apply to the Group's trade receivables. For other financial assets and receivables, the Group will apply a simplified model of recognizing lifetime expected credit losses at these items do not have a significant financing component.

- Most of the financial liabilities of the Group are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortised cost classification for financial liabilities will be retained.

(iii) PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate,* IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue* – B*arter Transactions Involving Advertising Services.* This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Based on an assessment and comprehensive study of the Group's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenue from contracts with customers covered by PFRS 15 pertains to real estate sales.

Real estate sales include sale of subdivision lots, house and lot packages, and residential and condominium units on which the Group's performance obligation is to transfer ownership over the developed properties. The Group begins selling real properties prior to the completion of the development. Based on the requirements of PFRS 15, the Group has assessed that its performance obligation on its sale of real properties under development is satisfied over time considering that, under existing laws and regulations, the Group does not have an alternative use on the assets being developed and that it has rights to payment over the development completed to date. When the Group sells developed properties, its performance obligation is satisfied at a point in time; that is when the customer has accepted the property.

The Group has also assessed that a significant financing component is common to its contracts to sell real properties as the timing of collections of promised consideration is not aligned with the timing of the satisfaction of performance obligation. Such timing difference usually extends beyond twelve months.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on the Group's consolidated financial statements.

(v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

Management has initially assessed that this amendment has no material impact on the Group's consolidated financial statements.

(vi) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this amendment on the Group's consolidated financial statements.

(vii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this amendment on the Group's consolidated financial statements.

(viii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, Leases.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similar to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

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Management is currently assessing the impact of this new standard on the Group's consolidated financial statements.

(ix) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation on the Group's consolidated financial statements.

(x) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

(xi) PFRS 10, (Amendments), Consolidated Financial Statements, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

2.3 Basis of Consolidation and Interests in Joint Ventures

The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles.

The Company accounts for its investments in subsidiaries, associates, non-controlling interests and interests in joint ventures as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when (a) it has power over the entity, (b) it is exposed, or has rights to, variable returns from its involvement with the entity, and (c) it has the ability to affect those returns through its power over the entity Subsidiaries are consolidated from the date the Company obtains control.

The Company reassesess whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.9).

((b) Investments in Associates

Associates are those entities over which the Company is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Company's share in the associate is included in the amount recognized as investment in associates.

All subsequent changes to the ownership interest in the equity of the associate are recognized in the Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity Share in Net Earnings (Losses) of Associates account in the Group's consolidated statement of comprehensive income.

Impairment loss is provided when there is objective evidence that the investments in associates will not be recovered (see Note 2.17).

Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity are recognized in other comprehensive income or equity of the Group, as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Transactions with Non-controlling Interests

The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) *Interests in Joint Ventures*

For interests in jointly controlled operations, the Group recognizes in its consolidated financial statements its share of the jointly controlled assets, any liabilities that it has incurred, its share of any liabilities incurred jointly with the other venturers in relation to the joint venture, any income from the sale or use of its share of the output of the joint venture, and any expenses that it has incurred in respect of its interest in the joint venture. No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

The Company holds interests in various subsidiaries and associates as presented in Note 1.

2.4 Financial Assets

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

(a) *Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to suppliers and contractors) and Advances to Related Parties accounts in the consolidated statements of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(ii) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets in the statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) *Impairment of Financial Assets*

The Group assesses at the end of each of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group recognizes impairment loss based on the category of financial assets as follows:

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

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

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

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

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

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

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

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Income or Finance Costs accounts in the consolidated statement of comprehensive income.

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

(d) *Derecognition of Financial Assets*

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

2.5 Prepayments and Other Assets

Prepayments and other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

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Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as other non-current assets.

2.6 Property and Equipment

Property and equipment, except land, are stated cost less accumulated depreciation, amortization and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building and other improvements	5-25 years
Transportation equipment	5 years
Office furniture and equipment	3-5 years

Leasehold improvements are amortized over the lease term or the estimated useful lives of the improvements of three years, whichever is shorter.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

Land is stated at cost less any impairment in value. As no finite useful life can be determined on the property, it's related carrying amount is not depreciated.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation, amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognized.

2.7 Investment Property

Investment property consists of building and office/commercial units held for lease and a parcel of land held for capital appreciation. Land held for capital appreciation is measured at cost less any impairment while building and office/commercial units held for lease are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation for building and office/commercial units classified as investment property is computed on the straight-line basis over the estimated useful life of 20 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.8 Financial Liabilities

Financial liabilities, which include interest-bearing loans and borrowings, trade and other payables (except tax-related liabilities), advances from related parties and other current liabilities, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges, except capitalized borrowing costs, incurred on a financial liability are recognized as an expense in profit or loss under the Finance Costs account in the consolidated statement of comprehensive income.

Interest-bearing loans and borrowings are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables, advances from related parties and other current liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when dividends are approved by the BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.17).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.10 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.11 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.12 Real Estate Transactions and Revenue and Expense Recognition

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title to the property to the Group, are charged to the Land Held for Future Development account. These costs are reclassified to the Property Development Costs account as soon as the Group starts the development of the property. Related property development costs are then accumulated in this account. A reclassification from Property Development Costs account to Residential and Condominium Units for Sale account is made once the project has been made available for sale to market. Interest on certain loans incurred during the development of the real estate properties are also capitalized as part of the Property Development Costs or Residential and Condominium Units for Sale or Cost of Real Estate Sales accounts (see Note 2.19). Revenues, on the other hand, are recognized when certain percentage of total contract price is collected.

Costs of properties and projects accounted for as Land Held for Future Development, Property Development Costs and Residential and Condominium Units for Sale are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale.

For financial reporting purposes, revenues on sales of residential and condominium units are recognized using the percentage-of-completion method. Under this method, revenue is recognized by reference to the stage of development of the properties, i.e., revenue is recognized in the period in which the work is performed. Uncompleted portion of gross profit in condominium and residential units sold are recognized in the Deferred Gross Profit on Real Estate Sales account in the consolidated statement of financial position. Completed portion during the year from Deferred Gross Profit on Real Estate Sales of prior year is recognized as income under Realized Gross Profit on Prior Years' Sales account in the consolidated statement of comprehensive income. Collections, which have not yet met the threshold (determined as a certain percentage of the net contract price) before a sale is recognized, are initially recorded as Advances from customers under the Customers' Deposits account in the consolidated statement of financial position.

The sale is recognized when a certain percentage of the total contract price has already been collected. The amount of real estate sales recognized in the consolidated statement of income is equal to the total contract price, net of day-one loss related to the discounting of noninterest-bearing receivables.

Revenue and cost relating to forfeited or backed-out sales are reversed in the current year as they occur. Any collections received from customers which will not be refunded are recognized as Forfeited collections and deposits, included as part of Other Income account in the consolidated statement of comprehensive income.

For tax purposes, revenue on sales of condominium units is recognized in full in the year of sale when a certain percentage of the net contract price has been received. However, the taxable income for the year is computed based on collections from the sales.

Cost of real estate property sold before completion of the development is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of real estate property sold, as determined by the entities' project engineers, are charged to the cost of residential and condominium units sold with a corresponding credit to the Reserve for Property Development account, which pertains to the remaining costs that will be incurred relative to the development/construction of the sold units.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any impairment loss from a real estate project is charged to operations in the period in which the loss is determined.

Revenues, other than those originating from real estate transactions, are recognized to the extent that it is probable that future economic benefits will flow to the Group; revenue can be measured reliably; and, the costs incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

(a) *Rental income* – Lease income from operating lease is recognized on a straight-line basis over the lease term [see Note 2.14(b)].

(b) *Forfeited collections and deposits* – Revenue is recognized in the year the contract was cancelled.

(c) *Marketing and management fees* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.

(d) *Tuition and miscellaneous fees* – Revenue is recognized over the corresponding school term.

(e) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(f) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.

Other costs and expenses are recognized in profit or loss upon utilization of the services, receipt of goods or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.19).

2.13 Commissions

Commissions represent a certain percentage of contract price given to the real estate brokers and/or agents who handle the sales and marketing of the Group's residential and high-rise projects. Commissions are recognized as expense in the period in which they are incurred.

2.14 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in the consolidated profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) Group as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the consolidated profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.15 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements, except that post-employment benefit expense is not included in arriving at the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.16 Foreign Currency Transactions and Translation

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the consolidated statement of comprehensive income.

2.17 Impairment of Non-financial Assets

The Group's advances to landowners and joint ventures, investment in associates, investment property, property and equipment, goodwill and other non-financial assets are tested for impairment. Goodwill is tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested for impairment either individually or at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.18 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated regularly by an independent actuary using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing & Exchange Corp., that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income account in the consolidated statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plans

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.19 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. For financial reporting purposes, interest and other costs on certain borrowings that are attributable to the acquisition, construction or development of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of Property Development Costs and Residential and Condominium Units for Sale or Cost of Real Estate Sales accounts in the consolidated statement of financial position (see Note 2.12). The capitalization of borrowing costs commences when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

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

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.20 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of each reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the consolidated profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.21 Related Party Transactions and Relationships

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

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

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

2.22 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the Company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. For the years ended December 31, 2017, 2016 and 2015, the Group does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

2.23 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury stock are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves arise from remeasurements on retirement benefit obligation, net of applicable taxes, and unrealized gains and losses arising from fair value changes of AFS financial assets.

Retained earnings represent all current and prior period results of operations as reported in the profit or loss section of the consolidated statement of comprehensive income.

2.24 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

3.1 Critical Judgments in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Revenue Recognition

The Group uses judgment in evaluating the probability of collection of contract price on real estate sales as a criterion for revenue recognition. The Group uses historical payment pattern of customers in establishing a percentage of collection threshold over which the Group determines that collection of total contract price is reasonably assured.

(b) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, no impairment losses was recognized in the Group's AFS financial assets in 2017, 2016 and 2015. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) Distinction Among Investment Property, Owner-managed Properties and Land Held for Future Development

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for 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.

Based on management's assessment, properties held for lease and for capital appreciation qualifies as investment property.

(d) Distinction Between Residential and Condominium Units for Sale and Investment Property

Residential and condominium units for sale comprise properties that are held for sale in the ordinary course of business. Meanwhile, investment properties comprise of land and buildings 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 capital appreciation. The Group considers management's intention over these assets in making its judgment.

(e) Distinction Between Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

Based on management's assessment, all of the Group's current lease agreements are classified as operating leases.

(f) Distinction Between Asset Acquisition and Business Combinations

The Company acquires subsidiaries that own real estate properties. At the time of acquisition, the Company considers whether the acquisition represents the acquisition of a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40 on ancillary services.

In 2015, the Company acquired 100% ownership interest in 20th Century as described in Note 1. The acquisition is accounted for as business combinations.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant contingencies are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

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

(a) Impairment of Trade and Other Receivables and Advances to Related Parties

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, their current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Certain trade and other receivables were found to be impaired in 2017 and 2016 while no provision for impairment losses on Advances to Related Parties account are needed to be recognized. The carrying values of trade and other receivables, and advances to related parties are shown in Notes 6 and 23, respectively.

(b) Determination of Net Realizable Value of Residential and Condominium Units for Sale, Property Development Costs and Land Held for Future Development

In determining the net realizable value of residential and condominium units for sale, property development costs, and land held for future development, management takes into account the most reliable evidence available at the times the estimates are made. The future realization of the carrying amounts of these assets is affected by price changes in the different market segments as well as the trends in the real estate industry. These are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's Residential and Condominium Units for Sale, Property Development Costs and Land Held for Future Development accounts within the next reporting period.

Considering the Group's pricing policy, the net realizable values of real estate, residential and condominium units for sale, property development costs, and land held for future development are higher than their related carrying values as of the end of the reporting periods.

(c) Estimation of Useful Lives of Property and Equipment and Investment Property

The Group estimates the useful lives of property and equipment, and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment, and investment property are analysed in Notes 12 and 13, respectively. Based on management's assessment as at December 31, 2017 and 2016, there is no change in estimated useful lives of property and equipment, and investment property during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The carrying values of the Group's deferred tax assets as of December 31, 2017 and 2016 are disclosed in Note 22.2.

(e) *Impairment of Goodwill and Other Non-financial Assets*

Goodwill is reviewed annually for impairment while other non-financial assets are tested whenever certain impairment indicators become present. In assessing impairment, the management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Also, the Group's policy on estimating the impairment of goodwill and other non-financial assets is discussed in detail in Note 2.17.

Material amount of goodwill amounting to P77.3 million arising from the acquisition of LBASSI has been tested for impairment. The recoverable amount of cash generating units assigned to LBASSI amounted to P165.2 million and P205.0 million in 2017 and 2016, respectively. The recoverable amount for LBASSI was determined using a cash flow projection covering a five-year period with growth rates of 5% to 10% and discount rates ranging from of 2% to 5% in both years presented. The discount rates and growth rate are the key assumptions used by management in determining the recoverable amount of cash generating units. Management believes that the key assumptions used reflected in the consolidated financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have material adverse effect on the results of operations. Management has also determined that a reasonably possible change in these key assumptions would not cause the carrying amount of the cash generating unit exceed their respective recoverable amounts. Based on management's assessment, no impairment loss needs to be recognized on goodwill since the recoverable amount of the cash generating units is greater than their carrying amount in both years presented (see Note 1). In addition, no impairment losses were recognized on advances to landowners and joint ventures, investments in associates, property and equipment, investment property, and other non-financial assets in 2017, 2016 and 2015 (see Notes 9, 11, 12 and 13).

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(f) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by an actuary in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the retirement benefit obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 21.2.

(g) *Revenue Recognition Using the Percentage-of-Completion Method*

The Group uses the percentage-of-completion method in accounting for its realized gross profit on real estate sales. The use of this method requires the Group to estimate the portion completed using relevant information such as costs incurred to date as a proportion of the total budgeted cost of the project and estimates by engineers and other experts. There were no changes in the assumptions or basis for estimation during the year.

(h) *Determination of Fair Value of Investment Property*

Investment property is measured using the cost model. The fair value disclosed in Note 29.4 to the consolidated financial statements is determined by the Group using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations.

The fair values of the properties were derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

The Group uses assumptions that are mainly based on market conditions existing at the end of each reporting periods. A significant change in these elements may affect prices and the value of the assets.

(i) *Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in the consolidated statement of comprehensive income in the subsequent period.

4. SEGMENT INFORMATION

4.1 *Business Segments*

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the development and marketing of mid-cost housing projects in the form of condominium communities, subdivision lots and house and lot packages, and commercial units to a limited extent. It classifies and monitors its projects into high-rise and horizontal. High-rise projects refer to condominiums and other medium scale properties while the horizontal projects refer to house and lot packages, and subdivision lots. Both are intended for middle income market.

4.2 *Segment Assets and Liabilities*

Segment assets include all operating assets used by a segment and consist principally of operating receivables, property development costs, and residential and condominium units for sale. Segment liabilities include all operating liabilities incurred by management in each particular segment.

4.3 *Intersegment Transactions*

There are no intersegment transactions. In case of inter-segment sales and transfers, the Group generally accounts for them as if the sales or transfers were made to third parties at current market prices. Intersegment sales and transfers, if any, are eliminated in the preparation of the consolidated financial statements.

4.4 *Analysis of Segment Information*

The tables presented in the succeeding pages present the revenue and profit information for the years ended December 31, 2017, 2016 and 2015 and certain asset and liability information regarding segments as at December 31, 2017 and 2016.

	High Rise Projects			Horizontal Projects			Total		
	2017	2016	2015	**2017**	2016	2015	**2017**	2016	2015
REVENUES									
Real estate sales	**P 3,926,143,769**	P 3,473,749,329	P 1,989,641,166	**P 324,069,723**	P 651,089,607	P 2,027,731,382	**P 4,250,213,492**	P 4,124,838,936	P 4,017,372,548
Finance income	**84,188,099**	113,231,003	138,358,950	**20,494,671**	16,390,003	6,407,363	**104,682,770**	129,621,006	144,766,313
Rental income	**73,616,139**	81,534,364	84,969,766	**67,427,516**	18,502,697	17,648,547	**141,043,655**	100,037,061	102,618,313
Realized gross profit on prior years' sale	**63,883,544**	69,595,743	64,055,734	**-**	-	-	**63,883,544**	69,595,743	64,055,734
Others	**192,180,493**	192,345,196	191,457,440	**14,862,727**	33,362,882	12,210,078	**207,043,220**	225,708,078	203,667,518
	4,340,012,044	3,930,455,635	2,468,483,056	**426,854,637**	719,345,189	2,063,997,370	**4,766,866,681**	4,649,800,824	4,532,480,426
COSTS AND OTHER OPERATING EXPENSES									
Cost of real estate sales	**2,389,153,423**	2,402,537,567	1,354,772,805	**110,682,099**	249,555,600	1,260,530,353	**2,499,835,522**	2,652,093,167	2,615,303,158
Deferred gross profit on current year's sales	**214,666,390**	96,603,442	53,657,526	**240,665**	28,980	251,265	**214,907,055**	96,632,422	53,908,791
Rentals	**164,488,032**	163,148,680	177,547,914	**1,428,346**	1,364,193	2,003,751	**165,916,378**	164,512,873	179,551,665
Commissions	**122,441,491**	119,923,652	184,616,757	**10,782,022**	11,585,302	23,037,529	**133,223,513**	131,508,954	207,654,286
Advertising and promotion	**110,237,016**	69,862,095	110,747,939	**16,411,021**	11,021,550	20,230,020	**126,648,037**	80,883,645	130,977,959
Taxes and licenses	**66,511,920**	35,775,392	19,188,727	**10,680,545**	9,978,173	14,113,029	**77,192,465**	45,753,565	33,301,756
Association dues	**32,727,344**	18,498,036	21,469,983	**3,553,401**	5,396,444	-	**36,280,745**	23,894,480	21,469,983
Salaries and employee benefits	**2,008,661**	702,535	-	**109,138**	383,775	470,281	**2,117,799**	1,086,310	470,281
Others	**29,151,094**	25,802,963	38,295,591	**6,417,533**	12,426,729	12,056,949	**35,568,627**	38,229,692	50,352,540
Cost and other operating expenses excluding depreciation and amortization	**3,131,385,371**	2,932,854,362	1,960,297,242	**160,304,770**	301,740,746	1,332,693,177	**3,291,690,141**	3,234,595,108	3,292,990,419
Depreciation and amortization	**3,349,999**	3,351,288	3,376,678	**13,668,347**	13,766,082	14,009,866	**17,018,346**	17,117,370	17,386,544
	3,134,735,370	2,936,205,650	1,963,673,920	**173,973,117**	315,506,828	1,346,703,043	**3,308,708,487**	3,251,712,478	3,310,376,963
SEGMENT OPERATING PROFIT	**P 1,205,276,674**	P 994,249,985	P 504,809,136	**P 252,881,520**	P 403,838,361	P 717,294,327	**P 1,458,158,194**	P 1,398,088,346	P 1,222,103,463
SEGMENT ASSETS AND LIABILITIES									
Segment assets	**P 22,082,169,314**	P 19,960,825,206	P 18,022,176,206	**P 5,738,513,158**	P 5,883,290,460	P 5,866,248,749	**P 27,820,682,472**	P 25,844,115,666	P 23,888,424,955
Segment liabilities	**2,228,397,462**	1,798,242,997	1,831,267,195	**186,207,184**	185,849,534	185,863,869	**2,414,604,646**	1,984,092,531	2,017,131,064

4.5 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2017	2016	2015
Revenues			
Total segment revenues	**P 4,766,866,681**	P 4,649,800,824	P 4,532,480,426
Unallocated revenues:			
Finance income	**170,001,989**	193,985,507	179,396,073
Commission income	**119,381,451**	126,759,525	143,273,471
Rental income from investment property	**5,373,315**	5,308,465	3,433,605
Equity share in net earnings (losses) of associates	**(578,205)**	813,301	(9,006,812)
Other income	**217,207,395**	220,592,398	209,087,790
	511,385,945	547,459,196	526,184,127
Revenues as reported in the consolidated statements of comprehensive income	**P 5,278,252,626**	P 5,197,260,020	P 5,058,664,553
Profit or loss			
Segment operating profit	**P 1,458,158,194**	P 1,398,088,346	P 1,222,103,463
Other unallocated income	**511,385,945**	547,459,196	526,184,127
Other unallocated expenses	**(1,337,606,611)**	(1,344,471,789)	(1,197,774,332)
Net profit as reported in the consolidated statements of comprehensive income	**P 631,937,528**	P 601,075,753	P 550,513,258
Assets			
Segment assets	**P 27,820,682,472**	P 25,844,115,666	
Unallocated assets:			
Cash and cash equivalents	**1,280,896,149**	1,008,997,919	
Trade and other receivables	**2,902,566,955**	2,797,096,132	
Advances to related parties	**2,502,356,313**	2,311,257,801	
Prepayments and other current assets	**338,912,664**	381,730,305	
Available-for-sale financial assets	**1,801,600,000**	1,439,028,000	
Advances to landowners and joint ventures	**306,887,895**	306,871,395	
Land held for future development	**2,925,390,962**	2,925,390,962	
Investment in associates	**1,162,295,541**	1,162,873,746	
Property and equipment - net	**198,143,172**	155,444,595	
Investment property – net	**118,555,626**	135,249,248	
Other non-current assets	**84,524,302**	84,702,690	
	13,622,129,579	12,708,642,793	
Total assets as reported in consolidated statements of financial position	**P 41,442,812,051**	P 38,552,758,459	

	2017	2016
Liabilities		
Segment liabilities	**P 2,414,604,646**	P 1,984,092,531
Unallocated liabilities:		
Interest-bearing loans and borrowings	**2,001,412,976**	1,958,549,476
Trade and other payables	**1,765,149,256**	1,451,139,792
Customers' deposits	**2,681,448,477**	2,494,778,962
Advances from related parties	**3,678,125,997**	3,012,266,199
Income tax payable	**6,495,737**	20,510,077
Other current liabilities	**678,774,641**	584,715,486
Retirement benefit obligation	**570,284,259**	528,514,895
Deferred tax liabilities - net	**1,705,148,472**	1,604,579,980
	13,086,839,815	11,655,054,867
Total liabilities as reported in consolidated statements of financial position	**P 15,501,444,461**	P 13,639,147,398

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2017	2016
Cash on hand and in banks	**P 1,134,495,072**	P 743,801,125
Short-term placements	**146,401,077**	265,196,794
	P 1,280,896,149	P 1,008,997,919

Cash in banks generally earn interest based on the daily bank deposit rates.

Peso-denominated short-term placements are made for varying periods of up to 60 days in 2017 and 17 days in 2016 and 2015 and earn annual effective interest ranging from 0.5% to 2.75% in 2017, 0.2% to 2.3% in 2016, and 0.1% to 2.5% in 2015. Dollar-denominated short-term placements are made for varying periods of up to 37 days in 2017, 38 days in 2016, and 78 days in 2015 and earn annual effective interest ranging from 0.4% to 0.8% in 2017 and in 2016, and 0.4% to 1.5% in 2015 (see Note 20.1).

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2017	2016
Current:			
Trade receivables	23.2	P 3,208,604,397	P 2,955,976,103
Advances to suppliers and contractors		1,322,221,647	1,214,267,596
Rent receivable	23.2	323,176,047	226,108,133
Management fee receivable	23.2	216,162,495	135,720,045
Interest receivable	23.4	199,517,464	255,382,279
Others		471,875,220	234,319,157
		5,741,557,270	5,021,773,313
Allowance for impairment		(273,122)	(462,402)
		5,741,284,148	5,021,310,911
Non-current:			
Trade receivables		3,687,034,243	2,626,277,146
Refundable security deposits		101,260,882	92,166,896
Others		63,820,351	63,820,351
		3,852,115,476	2,782,264,393
		P 9,593,399,624	P 7,803,575,304

The Group's trade and other receivables have been reviewed for indications of impairment. Certain trade receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized.

A reconciliation of the allowance for impairment on current trade and other receivables at the beginning and end of 2017 and 2016 is shown below.

	2017	2016
Balance at beginning of year	P 462,402	P 501,232
Write-off during the year	(66,756)	(235,421)
Impairment losses during the year	19,837	233,152
Recovery of accounts previously provided with allowance	(142,361)	(36,561)
Balance at end of year	P 273,122	P 462,402

Impairment losses are presented as part of Miscellaneous under Other Expenses account in the consolidated statements of comprehensive income (see Note 19.2).

Trade receivables of the Group are either interest-bearing or noninterest-bearing. The installment period of interest-bearing sales contracts ranges from 2 to 15 years. Interest-bearing receivables bear interest rates comparable to market rates. The related interest earned on these sales contracts amounting to P12.0 million in 2017, P54.2 million in 2016, and P89.5 million in 2015 are reported as part of Finance Income account in the consolidated statements of comprehensive income (see Note 20.1).

The installment period of noninterest-bearing sales contracts ranges from three to five years. Noninterest-bearing trade receivables are measured at amortized cost using the effective interest method based on the interest rate of comparable financial instruments in the market. Amortization of day-one loss amounting to P92.7 million in 2017, P75.4 million in 2016 and P55.3 million in 2015 are presented as part of Finance Income account in the consolidated statements of comprehensive income (see Note 20.1).

Trade and other receivables (excluding Advances to suppliers and contractors) are subject to credit risk exposure. The Group, however, does not identify specific concentrations of credit risk with regard to trade and other receivables, as the amounts recognized resemble a large number of receivables from various customers. In addition, certain accounts receivable from trade customers are covered by post-dated checks. The Group also retains the titles to the property until such time that the trade receivables are fully collected. Repossessed properties are offered for sale to other customers.

The Group partially finances its real estate projects and other business undertakings through assignment of its trade receivables on a with recourse basis with certain local banks (see Note 14).

Advances to suppliers and contractors represent downpayments made by the Group to the suppliers and contractors based on a certain percentage of the contract price, construction materials purchased by the Group that are used by the contractors, and utility consumption that are chargeable to contractors. The initial payment will eventually be recouped or deducted from the amount payable of the Group either in a pro-rated basis or in full once billed by the suppliers and contractors.

Refundable deposits include various deposits to third parties for electrical, internet subscription, exhibits and other utilities, and equipment needed in the development of the projects. All deposits, except for deposits to an electric company, do not earn interest. Such deposits are only refundable upon completion of the projects or upon return of the equipment used. However, the exact date or period of completion of projects or return of equipment is indeterminable. Accordingly, refundable deposits are accounted for at cost.

Other receivables, both current and non-current, include association dues, advances to joint ventures for processing of business permits and licenses, and unliquidated advances from employees and real estate consultants.

7. REAL ESTATE INVENTORIES

7.1 Residential and Condominium Units for Sale

This account represents the accumulated costs incurred, net of recognized cost of real estate sales in the consolidated statements of comprehensive income (see Note 18), on house and lots and condominium units available for sale. The subdivision houses include houses that are ready for occupancy, house models and units under construction.

Total borrowing costs capitalized to this account amounted to P89.9 million, P93.2 million, and P26.3 million in 2017, 2016 and 2015, respectively (see Note 14).

Certain properties presented as part of Residential and Condominium Units for Sale with total estimated carrying value of P110.7 million and P188.4 million as of December 31, 2017 and 2016, respectively, are used as security for the Group's interest-bearing loans and borrowings (see Note 14).

7.2 Property Development Costs

This account pertains to accumulated costs incurred on projects which are not yet offered for sale as of the end of the reporting periods.

7.3 Net Realizable Value

Management believes that the net carrying amounts of these assets are lower than their net realizable values considering present market rates; hence, no provisions for write-down of real estate inventories have been recognized in the consolidated financial statements.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The movement of the carrying amounts of AFS financial assets is as follows:

	2017	2016
Balance at beginning of year	**P 1,439,028,000**	P 1,812,860,000
Fair value gains (losses)	**362,572,000**	(373,832,000)
Balance at end of year	**P 1,801,600,000**	P 1,439,028,000

AFS financial assets pertains to investments held by EPHI in equity securities of the ultimate parent company, whose shares are listed in the PSE. The fair value of these securities has been determined directly by reference to published prices in an active market. The fair value of these investments as of December 31, 2017 and 2016, is categorized as Level 1 in the fair value hierarchy (see Note 29.2).

The net accumulated fair value gains or losses in AFS financial assets is shown as part of Revaluation Reserves account in the equity section of the consolidated statements of financial position (see Note 24.3).

Dividends earned is nil in 2017 and P34.9 million each in 2016 and 2015 and are presented as Dividend income under Finance Income account in the consolidated statements of comprehensive income (see Note 20.1).

9. ADVANCES TO LANDOWNERS AND JOINT VENTURES

The cash advances made by the Group relate to a number of joint venture agreements entered into with landowners covering the development of certain parcels of land. The joint venture agreements stipulate that the Group's joint venture partners shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of condominium units to be constructed on the properties. Costs incurred by the Group for these projects are recorded under the Residential and Condominium Units for Sale and Property Development Costs accounts in the consolidated statements of financial position (see Note 7). In addition to providing specified portion of the total project development costs, the Group also commits to advance mutually agreed-upon amounts to the landowners which will then be used for purposes such as reconsolidation/ separation/subdivision of mother titles and relocation of existing occupants. Repayments of these advances may be made upon completion of the project development either in the form of residential condominium, commercial units or developed lots corresponding to the landowners' share in the projects or in the form of cash to be derived from the sales of the landowners' share in the saleable lots and residential condominium units.

The reconciliation of advances to landowners and joint ventures as of December 31 are as follows:

	2017	2016
Advances to landowners	**P 25,000,029**	P 25,000,029
Advances to joint ventures:		
Balance at beginning of year	**281,871,366**	580,381,579
Additional advances	**16,500**	-
Collections	**-**	(298,510,213)
Balance at end of year	**281,887,866**	281,871,366
	P 306,887,895	P 306,871,395

In 2015, the Group reclassified an amount of P16.1 million to Property Development Costs account presented as current asset in the consolidated statement of financial position upon full payment of the Group's purchase of a property located in Batangas.

In 2014, the Group advanced an amount of P50.0 million as down payment to acquire a property owned by 20th Century located in Mandaluyong City. However, in 2015, the Group decided to acquire instead the entire shares of 20th Century. Hence, advance payment made in 2014 was reclassified to the Investments in Subsidiaries and Associates account in the 2015 consolidated statement of financial position (see Note 1).

The Group commits to develop the properties based on the terms agreed with the joint venture partners. The Group has no existing commitment for cash advances under the joint venture agreements as this commitment has been fully complied with by the Group as of December 31, 2017 and 2016.

The net commitment for construction expenditures amounts to:

	2017	2016
Total commitment for construction expenditures	**P 9,560,904,389**	P 9,560,904,389
Total expenditures incurred	**(7,383,619,228)**	(6,594,669,603)
Net commitment	**P 2,177,285,161**	P 2,966,234,786

The Group's interest in jointly controlled operations and projects ranges from 55% to 82% in 2017 and 2016. The Group's jointly controlled projects are as follows:

- Pioneer Woodlands
- San Lorenzo Place
- Various Metro Manila and Calabarzon projects

As of December 31, 2017 and 2016, the Group has no other material contingent liabilities with regard to these joint ventures.

10. LAND HELD FOR FUTURE DEVELOPMENT

This account includes cost of several parcels of land acquired by the Group and other costs incurred to effect the transfer of the title of the properties to the Group. Most of these properties are located in Metro Manila and CALABARZON areas and are intended for future development. Real estate taxes paid relating to these properties amounted to P2.7 million, P2.3 million, and P2.5 million in 2017, 2016 and 2015, respectively, and is presented as part of Taxes and Licenses account in the consolidated statements of comprehensive income. Considering the Group's pricing policy, management believes that the net realizable value of land held for future development is higher than its related carrying value as of the end of the reporting periods.

11. INVESTMENTS IN ASSOCIATES

The components of investments in associates as of December 31 are as follows:

	2017		2016	
	% Interest Held	**Amount**	% Interest Held	Amount
Investments in associates – at equity				
Acquisition costs:				
PCMI	**20%**	**P 877,776,747**	20%	P 877,776,747
GPMAI	**47%**	**293,960,618**	47%	293,960,618
		1,171,737,365		1,171,737,365
Accumulated equity in net earnings (losses):				
Balance at beginning of year		**(8,863,619)**		(9,676,920)
Equity share in net earnings (losses) for the year		**(578,205)**		813,301
Balance at end of year		**(9,441,824)**		(8,863,619)
		P 1,162,295,541		P 1,162,873,746

11.1 Purchase of PCMI

In 2015, the Company acquired 20% ownership interest in PCMI amounting to P877.8 million. The Company exercises significant influence but not control over PCMI; hence, the investment is accounted as an Investment in Associate.

11.2 Summarized Financial Information

The aggregated amounts of assets, liabilities, revenues and net income (loss) of associates are as follows:

	Assets	**Liabilities**	**Revenues**	**Net Income (Loss)**
2017:				
PCMI	P 2,442,353,575	P 8,521,960	P 3,405	(P 9,589,036)
GPMAI	597,995,428	12,047,251	3,332,796	674,613
	P 3,040,349,003	**P 20,569,211**	**P 3,336,201**	**(P 8,914,423)**

	Assets	**Liabilities**	**Revenues**	**Net Loss**
2016:				
PCMI	P 2,451,853,611	P 8,432,960	P 3,065	(P 6,422,005)
GPMAI	597,262,846	11,989,282	3,093,679	(1,728,757)
	P 3,049,116,157	P 20,422,242	P 3,096,744	(P 8,150,762)

As of December 31, 2017 and 2016, there are no available fair values for these investments in associates as they are not listed in stock markets.

11.3 Contingent Liabilities

As of December 31, 2017 and 2016, the Company has no contingent liabilities for subsidiaries and associates which were incurred jointly with other investors and the Company is not severally liable for all or part of the contingent liabilities of the subsidiaries and associates.

Based on management's assessment, the Group's investments in associates are not impaired due to the active efforts of the Company to fund their respective operations.

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of items of property and equipment at the beginning and end of 2017 and 2016 are shown below.

	Land	**Building and Other Improvements**	**Leasehold Improvements**	**Transportation Equipment**	**Office Furniture and Equipment**	**Total**
December 31, 2017						
Cost	P 81,095,000	P 82,394,341	P 103,068,557	P 73,318,902	P 145,218,016	P 485,094,816
Accumulated depreciation and amortization	-	(37,058,841)	(66,451,456)	(55,158,686)	(128,282,661)	(286,951,644)
Net carrying amount	**P 81,095,000**	**P 45,335,500**	**P 36,617,101**	**P 18,160,216**	**P 16,935,355**	**P 198,143,172**
December 31, 2016						
Cost	P 81,095,000	P 78,030,609	P 67,449,835	P 66,887,071	P 133,561,593	P 427,024,108
Accumulated depreciation and amortization	-	(34,064,531)	(63,845,726)	(52,196,761)	(121,472,495)	(271,579,513)
Net carrying amount	P 81,095,000	P 43,966,078	P 3,604,109	P 14,690,310	P 12,089,098	P 155,444,595
January 1, 2016						
Cost	P 81,095,000	P 74,353,446	P 66,933,359	P 55,313,073	P 127,261,868	P 404,956,746
Accumulated depreciation and amortization	-	(31,059,484)	(60,885,483)	(48,790,111)	(113,444,129)	(254,179,207)
Net carrying amount	P 81,095,000	P 43,293,962	P 6,047,876	P 6,522,962	P 13,817,739	P 150,777,539

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 is shown below and in the succeeding page.

	Land	**Building and Other Improvements**	**Leasehold Improvements**	**Transportation Equipment**	**Office Furniture and Equipment**	**Total**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 81,095,000	P 43,966,078	P 3,604,109	P 14,690,310	P 12,089,098	P 155,444,595
Additions		4,363,732	35,618,722	8,065,921	11,684,102	59,732,477
Disposal	-	-	-	-	-	-
Depreciation and amortization charges for the year	-	(2,994,310)	(2,605,730)	(4,596,015)	(6,837,845)	(17,033,900)
Balance at December 31, 2017, net of accumulated depreciation and amortization	**P 81,095,000**	**P 45,335,500**	**P 36,617,101**	**P 18,160,216**	**P 16,935,355**	**P 198,143,172**

EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
(A Subsidiary of Megaworld Corporation)

	Land	Building and Other Improvements	Leasehold Improvements	Transportation Equipment	Office Furniture and Equipment	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 81,095,000	P 43,293,962	P 6,047,876	P 6,522,962	P 13,817,739	P 150,777,539
Additions	-	3,669,807	516,476	11,903,461	5,891,870	21,981,614
Disposal	-	-	-	(181,205)	-	(181,205)
Depreciation and amortization charges for the year	-	(2,997,691)	(2,960,243)	(3,554,908)	(7,620,511)	(17,133,353)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 81,095,000	P 43,966,078	P 3,604,109	P 14,690,310	P 12,089,098	P 155,444,595

In 2017, the Company retired certain transportation equipment, and office and other equipment with nil book value. The related derecognized costs and accumulated depreciation for transportation equipment, and office and other equipment amounted to P1.6 million and P27,679, respectively. In 2016, the Company retires certain transportation equipment with a gross carrying amount of P0.2 million.

The amount of depreciation and amortization of property and equipment is presented as part of Depreciation and Amortization account under Costs and Expenses section in the consolidated statements of comprehensive income.

The cost of fully depreciated assets still used in business amounted to P190.0 million and 180.6 million as of December 31, 2017 and 2016, respectively.

13. INVESTMENT PROPERTY

The Company's investment property pertains to building and office/commercial units held for lease and a parcel of land held for capital appreciation. Rental revenues recognized for the years ended December 31, 2017, 2016 and 2015 amounted to P24.8 million, P23.1million, and P21.4 million, respectively, and are presented as part of Rental Income account in the consolidated statements of comprehensive income. Real estate taxes and depreciation substantially represent direct costs incurred related to these properties. Since all recorded investment properties earned rental income during the year, there were no direct operating expenses pertaining to investment properties not generating rental income. Real estate tax amounting to P1.3 million in 2017, and P1.4 million for both 2016, and 2015 was recognized as a related expense in those years, and was presented as part of Taxes and Licenses account in the consolidated statements of comprehensive income

The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of 2017 and 2016 is shown below.

	2017	2016	2015
Cost	**P 337,136,458**	P 337,136,458	P 337,136,458
Accumulated depreciation	**(218,580,832)**	(201,887,210)	(185,193,588)
Net carrying amount	**P 118,555,626**	P 135,249,248	P 151,942,870

A reconciliation of the carrying amount of investment property at the beginning and end of 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Balance at January 1, net of accumulated depreciation	**P 135,249,248**	P 151,942,870	P 168,747,693
Depreciation charges for the year	**(16,693,622)**	(16,693,622)	(16,804,823)
Balance at December 31, net of accumulated depreciation	**P 118,555,626**	P 135,249,248	P 151,942,870

The amount of depreciation on investment property is presented as part of Depreciation and Amortization account under Costs and Expenses in the consolidated statements of comprehensive income.

Other information relating to fair value measurements and disclosures of investment property are disclosed in Note 29.4.

14. INTEREST-BEARING LOANS AND BORROWINGS

The details of interest bearing loans and borrowings are discussed below.

2017	2016	Explanatory Notes	Interest Rate	Security	Maturity
P 400,000,000	P -	(a)	Floating rate of 4.5% subject to monthly repricing	Unsecured	2018
1,583,333,333	1,916,666,667	(b)	Fixed at 5.4% for 1st and 2nd tranches and floating rate ranging from 3.2% to 3.5% for the 3rd tranche	Unsecured	Up to 2022
18,079,643	41,882,809	(c)	Fixed rates ranging from 7.0% to 9.0%	Assignment of receivables	As account matures
P 2,001,412,976	P 1,958,549,476				

(a) Philippine Peso, unsecured 58-day loan due on 2018
In 2017, the Group obtained a bridge financing from a local bank. The loan was released in December 2017 and subject to floating rate of 4.5%. The proceeds of the loan were used to fund the development of the Company's various real estate projects. The principal of the loan is payable upon maturity and interest is payable monthly in arrears.

(b) Philippine Peso, unsecured seven-year loan due in 2022
In 2015, the Group obtained an interest-bearing seven-year P2.0 billion loan from a local bank. The loan was released in three tranches from 2015 to 2016 and bears fixed interest of 5.4% for the first and second tranches, and floating rate ranging from 3.2% to 3.5% subject to quarterly re-pricing for the third tranche. The proceeds of the loan were used to fund the development of the Group's various real estate projects. The outstanding balance pertaining to this loan amounted to P1,583.3 million and P1,916.7 million as at December 31, 2017 and 2016, respectively

(c) Philippine Peso, loans through assignment of receivables
In prior years, the Group obtained loans from local banks by assigning certain trade receivables on a with recourse basis (see Note 6). The loans bear fixed interest rates ranging from 7.0% to 9.0% and are being paid as the related receivables are collected. The loans are secured by certain properties presented as part of Residential and Condominium Units for Sale with total estimated carrying value of P110.7 million and P188.4 million as of December 31, 2017 and 2016, respectively (see Note 7.1). The outstanding balance pertaining to these loans amounted to P18.1 million and P41.9 million as of December 31, 2017 and 2016, respectively.

Certain bank loans require the Group to maintain a debt-to-equity ratio of not more than 1:1 and a current ratio of not less than 2:1. As of December 31, 2017 and 2016, the Group is in compliance with such financial covenant obligations.

Total interest on these interest-bearing loans and borrowings in 2017, 2016 and 2015 amounted to P89.9 million, P93.2 million, and P26.3 million, respectively, and are directly attributable to the construction of the Group's projects; hence, capitalized as part of Residential and Condominium Units for Sale account in the consolidated statements of financial position (see Note 7.1). Unpaid interest as of December 31, 2017 and 2016 amounted to P0.5 million and P0.4 million, respectively and is presented as Interest payable under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

	2017	2016
Current	**P 751,412,976**	P 355,115,433
Non-current	**1,250,000,000**	1,603,434,043
	P 2,001,412,976	P 1,958,549,476

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	**2017**	2016
Trade payables		**P 1,544,770,744**	P 1,278,406,615
Accrued expenses	23.5	**119,809,934**	75,765,287
Taxes payable		**91,316,247**	88,223,804
Commissions		**5,759,017**	7,759,017
Interest payable	14	**474,479**	396,773
Miscellaneous		**3,018,835**	588,296
		P 1,765,149,256	P 1,451,139,792

Accrued expenses include the Group's obligations to its suppliers that are expected to be settled within 12 months from the end of the reporting period. These liabilities arise mainly from accrual of construction expenditures incurred during the year

16. CUSTOMERS' DEPOSITS

Presented below are the details of this account.

	2017	2016
Advances from customers	**P 2,082,167,510**	P 1,959,018,127
Other deposits	**599,280,967**	535,760,835
	P 2,681,448,477	P 2,494,778,962

Advances from customers represent cash received from customers for real estate property purchases which have not yet reached the sales recognition threshold of the Group. The advances are deducted from the contract price once the related real estate sales are recognized by the Group.

Other deposits mainly pertain to cash received from customers for miscellaneous fees and other related expenses to process the transfer of title to customers.

17. OTHER CURRENT LIABILITIES

As of December 31, other current liabilities include the following:

	2017	2016
Retention payable	**P 607,281,731**	P 528,112,954
Refundable deposits	**47,124,631**	35,709,449
Deferred income	**12,556,688**	10,140,383
Miscellaneous	**11,811,591**	10,752,700
	P 678,774,641	P 584,715,486

Retention payable pertains to amounts withheld from payments made to contractors to ensure compliance and completion of contracted projects, which ranges from 5% to 10% of every billing made by the contractor. Upon completion of the contracted projects, submission of required bonds and final acceptance of works, the amounts are returned to contractors.

Deferred income represents unearned tuition, miscellaneous and other fees relating to the portion of the school year applicable to the succeeding financial year.

18. COST OF REAL ESTATE SALES

The total cost of real estate sales for the years ended December 31, are as follows:

	2017	2016	2015
Actual costs	**P 1,673,698,981**	P 2,071,307,001	P 2,219,237,029
Estimated costs	**826,136,541**	580,786,166	396,066,129
	P 2,499,835,522	P 2,652,093,167	P 2,615,303,158

The breakdown of the cost of real estate sales are as follows (see Note 7):

	2017	2016	2015
Contracted services	**P 2,173,206,597**	P 2,256,933,387	P 2,029,736,881
Land cost	**198,536,134**	331,041,576	531,119,337
Borrowing costs	**44,145,468**	48,767,216	33,842,962
Others	**83,947,323**	15,350,988	20,603,978
	P 2,449,835,522	P 2,652,093,167	P 2,615,303,158

19. OTHER INCOME AND EXPENSES

19.1 Other Income

The details of this account are shown below.

	Note	2017	2016	2015
Forfeited collections and deposits		**P 207,043,220**	P 225,708,078	P 203,546,999
Marketing and management fees	23.2	**168,781,665**	170,503,780	152,337,451
Tuition and miscellaneous fees		**44,573,318**	46,783,056	52,700,885
Miscellaneous		**3,852,412**	3,305,562	4,169,973
		P 424,250,615	P 446,300,476	P 412,755,308

Forfeited collections and deposits include reservation fees and all payments made by delinquent buyers. This also includes portion of payments received by the Group upon approval of buyer's request to transfer to other units.

Miscellaneous fees include registration fees, medical and dental fees, laboratory fees, energy fees, and other fees charged to students upon enrolment.

19.2 Other Expenses

The breakdown of other expenses is shown below.

	Notes	2017	2016	2015
Rentals	23.5, 26.2	**P 228,366,889**	P 251,902,195	P 228,121,389
Association dues		**42,372,738**	28,756,496	26,308,296
Utilities		**35,690,469**	32,175,318	34,475,744
Professional fees	23.5	**24,044,029**	39,892,869	5,993,530
Security services		**18,147,080**	17,355,405	18,058,398
Insurance		**9,325,295**	4,655,325	4,273,836
Janitorial services		**8,825,231**	5,953,310	4,700,195
Repairs and maintenance		**6,558,596**	7,427,998	7,332,404
Outside services		**5,575,081**	5,245,283	3,793,845
Office supplies		**4,461,909**	8,352,182	5,860,351
Documentation		**1,155,125**	8,594,225	15,071,126
Marketing events and awards		**1,035,515**	340,852	579,456
Representation		**714,027**	1,143,838	8,879,768
Miscellaneous	6	**18,758,635**	22,258,489	19,823,708
		P 405,030,619	P 434,053,785	P 383,272,046

Miscellaneous expenses include impairment loss on receivable, bank charges, donations and contributions, trainings and seminars, motor vehicle registration and others.

20. FINANCE INCOME AND FINANCE COSTS

20.1 Finance Income

The breakdown of Finance income is shown below.

	Notes	2017	2016	2015
Interest income:				
Advances to related parties	23.1	**P 165,880,061**	P 147,430,827	P 132,325,283
Trade and other receivables	6	**12,012,411**	54,248,875	89,481,544
Cash and cash equivalents	5	**2,976,037**	9,917,831	6,822,758
Tuition fees		**1,026,911**	1,125,104	1,125,565
		181,895,420	212,722,637	229,755,150
Amortization of day-one loss on noninterest-bearing financial instruments	6	**92,670,359**	75,372,131	55,284,769
Foreign currency gains - net		**118,980**	605,745	4,216,467
Dividend income	8	**-**	34,906,000	34,906,000
		P 274,684,759	P 323,606,513	P 324,162,386

20.2 Finance Costs

The breakdown of Finance costs is shown below.

	Notes	2017	2016	2015
Interest expense on advances from related parties	23.1	**P 193,256,870**	P 175,929,149	P 157,768,766
Net interest expense on post-employment defined benefit obligation	21.2	**26,090,295**	23,640,846	19,612,116
		P 219,347,165	P 199,569,995	P 177,380,882

21. SALARIES AND EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

	Note	2017	2016	2015
Short-term benefits		**P 368,962,676**	P 364,254,168	P 352,460,844
Post-employment benefits	21.2	**65,768,335**	63,713,841	58,781,794
		P 434,731,011	P 427,968,009	P 411,242,638

21.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

The Group maintains a partially-funded, tax-qualified, non-contributory, post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The post-employment defined benefit plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The post-employment defined benefit plan provides for retirement ranging from 60% to 200% of final monthly salary for every year of credited service, but shall not be less than the regulatory benefit under the Republic Act 7641, The Retirement Pay Law, or the applicable retirement law at the time of the member's retirement.

(b) Explanation of the Amounts Presented in the Consolidated Financial Statements

Actuarial valuations are made regularly to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the latest actuarial valuation reports obtained from an independent actuary.

The amounts of post-employment DBO recognized in the consolidated statements of financial position are determined as follow:

	2017	2016
Present value of the obligation	**P 623,131,227**	P 579,336,959
Fair value of the assets	**(52,846,968)**	(50,822,064)
	P 570,284,259	P 528,514,895

The movements in the present value of the post-employment DBO recognized in the books are as follows:

	2017	2016
Balance at beginning of year	**P 579,336,959**	P 496,923,682
Current service cost	**65,768,335**	63,713,841
Interest expense	**28,629,322**	24,587,968
Remeasurements:		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**(70,875,767)**	(4,630,870)
Experience adjustments	**22,066,078**	483,838
Benefits paid	**(1,793,700)**	(1,741,500)
Balance at end of year	**P 623,131,227**	P 579,336,959

The movements in the fair value of plan assets are presented below.

	2017	2016
Balance at beginning of year	**P 50,822,064**	P 17,625,052
Interest income	**2,539,027**	947,122
Loss on plan assets (excluding amounts included in net interest)	**(1,720,423)**	(750,110)
Actual contribution	**3,000,000**	34,741,500
Benefits paid	**(1,793,700)**	(1,741,500)
Balance at end of year	**P 52,846,968**	P 50,822,064

The Group's plan assets only consist of cash and cash equivalents as of December 31, 2017 and 2016 and do not comprise any of the Group's financial instruments or any of its assets occupied and/or used in its operations.

The plan assets earned a return of P818,604 and P197,012 in 2017 and 2016, respectively.

The components of amounts recognized in the consolidated statements of comprehensive income in respect of the post-employment defined benefit plan is as follows:

	Notes	**2017**	2016	2015
Reported in profit or loss:				
Current service cost	21.1	**P 65,768,335**	P 63,713,841	P 58,781,794
Net interest expense	20.2	**26,090,295**	23,640,846	19,612,116
		P 91,858,630	P 87,354,687	P 78,393,910
Reported in other comprehensive income (loss):				
Actuarial gains (losses) arising from:				
- changes in financial assumptions		**P 70,875,767**	P 4,630,870	P 41,480,767
- experience adjustments		**(22,066,078)**	(483,838)	(15,189,844)
- demographic assumption		**-**	-	(400,820)
Loss on plan assets (excluding amounts included in net interest)		**(1,720,423)**	(750,110)	(629,361)
		P 47,089,266	P 3,396,922	P 25,260,742

Current service cost is presented as part of Salaries and Employee Benefits account under Costs and Expenses section in the consolidated statements of comprehensive income (see Note 21.1) while the amounts of net interest expense is included under Finance Costs under Costs account and Expenses section in the consolidated statements of comprehensive income (see Note 20.2).

The amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2017	2016	2015
Company:			
Discount rates	**5.70%**	4.89%	4.89%
Expected rate of salary increases	**10.00%**	10.00%	10.00%
EPHI:			
Discount rates	**5.70%**	5.38%	5.40%
Expected rate of salary increases	**8.43%**	7.16%	7.80%
LBASSI:			
Discount rate	**5.70%**	5.16%	5.16%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

The other subsidiaries currently do not have employees and their accounting and other administrative functions are being handled by the Company; hence, there was no cost of retirement benefits recognized.

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 60 and 65 for both males and females are below.

	Retirement Age	Average Remaining Working Life
Company	60	27.2
LBASSI	60	30
EPHI	65	20

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as interest rate risk, longevity risk and salary risk.

(i) Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

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(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the DBO as of December 31:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
2017			
Company			
Discount rate	**+/-1.00%**	**(P 79,415,775)**	**P 98,441,605**
Salary increase rate	**+/-1.00%**	**87,520,389**	**(72,994,098)**
LBASSI			
Discount rate	**+/-1.00%**	**(805,884)**	**979,159**
Salary increase rate	**+/-1.00%**	**908,882**	**(766,560)**
EPHI			
Discount rate	**+/-0.50%**	**(4,416,365)**	**4,858,293**
Salary increase rate	**+/-1.00%**	**9,542,089**	**(8,095,359)**
2016			
Company			
Discount rate	+0.50%/-1.00%	(P 70,809,422)	P 88,898,169
Salary increase rate	+0.75%/-1.25%	79,007,454	(65,224,032)
LBASSI			
Discount rate	+/-1.00%	(689,243)	815,771
Salary increase rate	+/-1.00%	756,175	(657,192)
EPHI			
Discount rate	+/-0.50%	(3,535,867)	3,894,558
Salary increase rate	+/-1.00%	7,734,210	(6,537,004)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the DBO as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the DBO recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(i) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in cash and cash equivalents with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

There has been no change in the Group's strategies to manage its risks from previous periods.

(ii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P570.3 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire.

The company expect to make contribution of at least P33.0 million to the plan during the next financial year.

The maturity profile of undiscounted expected benefit payments from the plan for the next 20 years follows:

	2017	2016
Within one year	**P 12,312,601**	P 8,750,818
More than one year to five years	**129,020,882**	12,735,531
More than five years to ten years	**194,724,011**	204,041,461
More than ten years to 15 years	**44,780,214**	36,458,187
More than 15 years to 20 years	**89,652,710**	55,632,154
	P 470,490,418	P 317,618,151

The weighted average duration of the DBO at the end of the reporting period is 14.5 to 20 years.

22. TAXES

22.1 Registration with the Board of Investments (BOI)

On April 11, 2014, the BOI approved the Company's application for registration as a New Developer of Low Cost Mass Housing Project on a Non-pioneer Status relative to its various units of Kasara Urban Resort Residences (Tower 1 and Tower 2) project. Under the registration, the applicable rights and privileges provided in the Omnibus Investment Code of 1987 shall equally apply and benefit the Company with certain incentives including income tax holiday (ITH) for a period of three years from the date of registration.

On April 10, 2017, the registration with the BOI expired. However, the Company is in the process of renewing its registration with the BOI as of the date the financial statements were authorized for issue by the BOD. The Company is not expected to obtain the renewal from the BOI before filing the 2017 annual income tax return with the BIR. Consequently, only the income earned for the taxable period January 1, 2017 to April 10, 2017 was considered as an incentive under ITH in determining the taxable income.

22.2 Current and Deferred Taxes

The components of tax expense reported in the consolidated statements of comprehensive income for the years ended December 31 are as follows:

	2017	2016	2015
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30% and 10%	**P 200,123,871**	P 110,430,527	P 109,427,206
Final tax at 20% and 7.5%	**573,923**	1,931,855	1,260,838
	200,697,794	112,362,382	110,688,044
Deferred tax expense relating to origination and reversal of temporary differences	**85,940,581**	131,541,403	121,479,602
	P 286,638,375	P 243,903,785	P 232,167,646
Reported in other comprehensive income (loss) –			
Deferred tax expense at 30% and 10% relating to origination and reversal of temporary differences	**P 13,842,265**	P 1,019,077	P 7,454,228

LBASSI, as an educational institution, is subject to 10% tax rate on its taxable income as defined under the tax regulations of the National Internal Revenue Code Section 27(B).

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense as reported in the profit or loss section of the consolidated statements of comprehensive income is as follows:

	2017	2016	2015
Tax on pretax profit at 30% and 10%	**P 275,495,341**	P 252,330,806	P 234,947,391
Adjustment for income subjected to lower income tax rates	**(250,980)**	(921,063)	(649,053)
Taxeffects of:			
Income subject to ITH-ERO	**(20,547,117)**	(18,888,058)	(2,184,724)
Nondeductible taxes and licenses	**5,528,805**	15,400,427	-
Nondeductible interest expense	**265,263**	936,743	623,059
Unrecognized deferred tax assets	**261,141**	329,437	520,731
Nondeductible expenses	**65,517**	-	3,368,629
Nontaxable income	**-**	(10,473,975)	(10,484,596)
Nondeductible loss on discounting	**-**	-	-
Others - net	**25,820,405**	5,189,468	6,026,209
	P 286,638,375	P 243,903,785	P 232,167,646

The net deferred tax liabilities as of December 31 relate to the following:

	Consolidated Consolidated Statements of Financial Position		Consolidated Statements of Profit or Loss		
	2017	2016	**2017**	2016	2015
Deferred tax assets:					
Retirement benefit obligation	**P 169,239,771**	P 156,703,213	**(P 26,378,824)**	(P 15,414,546)	(P 21,191,281)
Accrued rent	**812,255**	525,356	**(286,899)**	(706,559)	195,649
Unamortized past service cost	**116,833**	194,385	**77,553**	3,069,615	(387,000)
Minimum corporate income tax (MCIT)	**-**	785,647	**-**	(785,647)	-
Unrealized foreign currency losses - net	**-**	-	**-**	-	158,058
	170,168,859	158,208,601	**(26,588,170)**	(13,837,137)	(21,224,574)
Deferred tax liabilities:					
Uncollected realized gross profit	**(1,724,074,105)**	(1,572,373,939)	**151,700,167**	165,923,087	160,616,464
Capitalized borrowing cost	**(151,207,532)**	(190,232,919)	**(39,025,387)**	(19,461,330)	(19,177,228)
Unrealized foreign exchange gains - net	**(35,694)**	(181,723)	**(146,029)**	(1,083,217)	1,264,940
	(1,875,317,331)	(1,762,788,581)	**112,528,751**	145,378,540	142,704,176
Net Deferred Tax Expense			**P 85,940,581**	P 131,541,403	P 121,479,602
Net Deferred Tax Liabilities - net	**(P 1,705,148,472)**	(P 1,604,579,980)			

The deferred taxes presented in Other Comprehensive Income section in the consolidated statements of comprehensive income pertains to the tax effect of remeasurements of retirement benefit obligation.

The Group is subject to the MCIT which is computed at 2% of gross income as defined under the tax regulations, or RCIT, whichever is higher.

The details of net operating loss carry over (NOLCO) incurred by certain subsidiaries, which can be claimed as deduction from their respective future taxable income within three years from the year the loss was incurred, are shown below.

Subsidiaries	Year Incurred	Amount	Valid Until
EECI	2017	P 147,797	2020
	2016	144,624	2019
	2015	1,454,879	2018
SPLI	2017	175,174	2020
	2016	172,118	2019
	2015	166,247	2018
SOHI	2017	149,301	2020
	2016	145,407	2019
	2015	140,228	2018
VVPI	2017	151,360	2020
	2016	147,803	2019
	2015	142,675	2018
20th Century	2017	178,249	2020
	2016	235,000	2019

EECI, SPLI, SOHI, VVPI and 20th did not recognize deferred tax assets on their respective NOLCO as management believes that the related deferred tax assets may not be recovered within the prescriptive period. The amount of NOLCO for the year ended 2017 for which the related deferred tax asset has not been recognized amounted to a total of P0.8 million with a total tax effect of P0.2 million.

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The aggregated amounts of assets, deficit, revenues and net loss of the subsidiaries which incurred NOLCO are as follows:

	Assets	Deficit	Revenues	Net Loss
2017				
EECI	P 25,246,304	P 207,313,704	P 236	P 147,797
SPLI	511,958,580	10,006,134	-	175,174
SOHI	16,747,745	8,626,554	-	149,301
VVPI	90,936,329	3,859,824	-	151,360
20th Century	1,267,065	60,655,490	-	178,249
	P 646,156,023	**P 290,461,706**	P 236	**P 801,881**
2016				
EECI	P 25,187,953	P 207,165,907	P 302	P 144,382
SPLI	511,977,306	9,830,960	-	172,118
SOHI	16,739,614	8,477,253	-	145,407
VVPI	90,929,289	3,708,464	-	147,803
20th Century	1,257,759	60,477,241	-	235,000
	P 646,091,921	P 289,659,825	P 302	P 844,710

In 2017, 2016 and 2015, the Group opted to claim itemized deductions in computing for its income tax due.

23. RELATED PARTY TRANSACTIONS

The Group's related parties include its ultimate parent company, parent company, associates, related parties under common ownership, key management personnel, and the Group's retirement plan as described below.

The summary of the Group's significant transactions and outstanding balances with its related parties are follows:

Related Party Category	Notes	Amount of Transactions			Outstanding Balance	
		2017	2016	2015	**2017**	2016
Ultimate Parent:						
AFS financial assets	8	**P 362,572,000**	(P 373,832,000)	(P 726,270,000)	**P 1,801,600,000**	P 1,439,028,000
Dividend income	8, 20.1	**-**	34,906,000	34,906,000	**-**	-
Parent:						
Availment of advances	23.1	**(181,621,801)**	(180,005,353)	(374,117,857)	**(2,475,932,074)**	(2,294,310,273)
Rendering of services	23.2	**166,899,128**	177,122,386	195,232,327	**623,047,999**	628,878,101
Associates –						
Availment of advances	23.1	**19,762,003**	526,548	(282,202,270)	**(652,385,194)**	(672,147,197)
Under common ownership:						
Availment of advances	23.1	**(504,000,000)**	-	(6,107,671)	**(549,808,729)**	(45,808,729)
Granting of advances	23.1	**191,098,512**	164,453,580	190,443,672	**2,502,356,313**	2,311,257,801
Rendering of services	23.2	**129,799,869**	135,720,045	-	**216,162,495**	135,720,045
Obtaining of services	23.5	**(33,796,311)**	(48,301,904)	(14,327,438)	**(38,800,346)**	(33,721,207)
Sale of property	23.3	**-**	-	999,082,400	**-**	-
Sale of land	23.4	**-**	-	-	**40,643,067**	40,643,067
Key management personnel –						
Compensation	23.6	**56,395,455**	48,103,875	42,490,091	**-**	-

The Group's outstanding receivables from and payables to related parties arising from interest-bearing loans, joint venture agreements, lease of property and cash advances to related party are unsecured and are generally settled in cash or through offsetting arrangements with the related parties.

There were no impairment losses recognized on the outstanding receivables from related parties in 2017, 2016 and 2015 based on management's assessment.

23.1 Advances to and from Related Parties

The Group grants to and obtains unsecured advances from its parent company, stockholders, associates and other related parties for working capital purposes.

The Advances to Related Parties account represents the outstanding balances arising from cash advances granted by the Group to certain related parties under common ownership. The change in the Advances to Related Parties account are shown below.

	Note	**2017**	2016
Balance at beginning of year		**P 2,311,257,801**	P 2,146,804,221
Interest income	20.1	**165,880,061**	147,430,827
Additional advances		**25,218,451**	17,022,753
Balance at end of year		**P 2,502,356,313**	P 2,311,257,801

The Advances from Related Parties account represents the outstanding balances arising from cash advances obtained by the Company from its parent company, associates and certain related parties under common ownership. The details as at December 31 are as follow:

	2017	2016
Parent	**P 2,475,932,074**	P 2,294,310,273
Associates	**652,385,194**	672,147,197
Other related parties	**549,808,729**	45,808,729
	P 3,678,125,997	P 3,012,266,199

The movement in the Advances from Related Parties account are shown below.

	Note	**2017**	2016
Balance at beginning of year		**P 3,012,266,199**	P 2,832,787,394
Interest expense	20.2	**193,256,870**	175,929,149
Additions		**505,494,378**	5,566,893
Repayments		**(32,891,450)**	(2,017,237)
Balance at end of year		**P 3,678,125,997**	P 3,012,266,199

These advances to/from stockholders, associate and other related parties are generally collectible/payable in cash on demand or trough offsetting arrangements with the related parties (see Note 28.2). Cash advances from parent company bears fixed interest rate ranging between 7% and 12% per annum in 2017, 2016 and 2015. Interest expense is presented as part of Finance Costs account in the consolidated statements of comprehensive income.

In 2017, the Group obtained advances amounting to P504.0 million from a related party under common ownership for working capital purposes.

23.2 Rendering of Services

The summary of services offered by the Group is presented below.

	Amount of Transactions		
	2017	2016	2015
Management services	**P 129,799,869**	P 135,720,045	P -
Commission income	**119,381,451**	126,759,525	143,273,471
Lease of property	**47,517,677**	50,362,861	51,958,856
	P 296,698,997	P 312,842,431	P 195,232,327

Starting 2016, the Group handled the administrative functions of certain related parties under common ownership for the latter's ongoing construction and development activities. The amount of revenue earned from such transaction is recorded as part of Marketing and management fees under Other Income account in the 2017 and 2016 consolidated statements of comprehensive income (see Note 19.1) while the outstanding balances are presented as Management fee receivable under Trade and Other Receivables account in the 2017 and 2016 consolidated statements of financial position (see Note 6).

The Group earns marketing fees from the sale of Megaworld's real estate properties. The marketing fee recognized is presented as Commissions account under Revenues and Income section in the consolidated statements of comprehensive income. The outstanding receivables related to these transactions are presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The Company leases certain investment property to its parent company. The revenues earned from the lease are included as part of Rental Income account under Revenues and Income section in the consolidated statements of comprehensive income. The related outstanding receivables from these transactions are presented as part of Rent receivable under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

23.3 Sale of Property

In 2015, the Group sold a property in Balayan, Batangas to a related party under common ownership with an area of 169,336 square meters for a total consideration of P999.1 million, net of VAT, under the normal course of the Group's business. The transaction is presented as part of the Group's Real Estate Sales account under Revenues and Income section in the 2015 consolidated statement of comprehensive income. This was paid in full in 2015. There was no similar transaction in 2017 and 2016.

23.4 Sale of Land

In prior years, the Group sold, on account, to a related party under common ownership, a parcel of land which was used as site of the related party's project. The outstanding receivable, which pertains to the remaining unpaid interest, from this sale is presented as part of Interest receivable under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

23.5 Obtaining of Services

The summary of services obtained by the Group is presented below.

	Amount of Transactions		
	2017	2016	2015
Management fee	**P 17,907,218**	P 31,689,881	P -
Lease of showroom and parking space	**15,889,093**	16,612,023	14,327,438
	P 33,796,311	P 48,301,904	P 14,327,438

Starting 2016, the Group incurred management fees for accounting and marketing services obtained from related parties under common ownership, and is presented as part of Professional fee under Other Expenses account in the 2017 and 2016 consolidated statements of comprehensive income (see Note 19.2). The related payable is shown as part of Accrued expenses under the Trade and Other Payables account in the 2017 and 2016 consolidated statements of financial position (see Note 15).

The Group's showroom and parking space is being leased from its related parties under common ownership. The related rental expenses are shown as part of Rentals under Other Expenses account in the consolidated statements of comprehensive income (see Note 19.2).

23.6 Key Management Personnel Compensation

The compensation of the Group's key management personnel are as follows:

	2017	2016	2015
Short-term benefits	**P 37,312,790**	P 34,395,718	P 30,199,457
Post-employment benefits	**19,082,665**	13,708,157	12,290,634
	P 56,395,455	P 48,103,875	P 42,490,091

These are presented as part of Salaries and Employee Benefits account under Cost and Expenses section in the consolidated statements of comprehensive income for the years ended December 31, 2017, 2016 and 2015 (see Note 21.1).

23.7 Retirement Plan

The Group's retirement fund for its post-employment defined benefit plan is administered and managed by a trustee bank. The plan assets consist only of cash and cash equivalents amounting to P52.8 million and P50.8 million as of December 31, 2017 and 2016, respectively (see Note 21.2).

The retirement fund neither provides any guarantees or surety for any obligation of the Group nor its investments covered by any restrictions or liens.

The details of the contributions of the Group and benefits paid out by the plan are presented in Note 21.2.

24. EQUITY

24.1 Capital Stock

Capital stock as of December 31, 2017 and 2016 consists of:

	Shares	Amount
Common shares – P1 par value		
Authorized	31,495,200,000	P 31,495,200,000
Issued	14,803,455,238	P 14,803,455,238
Treasury shares – at cost	(127,256,071)	(102,106,658)
Total outstanding	14,676,199,167	P 14,701,348,580
Preferred shares – P1 par value		
Authorized	2,000,000,000	P 2,000,000,000

Megaworld has 81.72% ownership interest in the Company as of December 31, 2017 while 81.73% ownership interest in the Company as of December 31, 2016 and 2015.

The Series B preferred shares are nonredeemable, convertible into common shares and are nonvoting. The shares have zero coupon rate and shall not be entitled to dividends. The Series B preferred shares shall be convertible to common shares anytime after the end of the 18 months from the implementation date, May 29, 1998, as defined in the subscription agreements.

On April 24, 1996, the SEC approved the listing of the Company's shares totalling 425,000,000. The shares were issued at an offer price of P12.90 per share. As of December 31, 2017, 2016 and 2015, there are 12,499, 12,591 and 12,667 holders of the listed shares, respectively. The shares were listed and closed at a price of P0.65, P0.69 and P0.77 per share as of December 29, 2017 December 28, 2016 and December 29, 2015 respectively.

24.2 Treasury Stock

On March 23, 2006, the Company's BOD authorized the buy-back of up to P1.0 billion worth of Company's shares of common stock within a 24-month period under certain terms and conditions as the Company's senior management may deem beneficial to the Company and its stockholders.

As of December 31, 2017 and 2016, the Company's treasury shares amounted to P102.1 million, representing the cost of 127,256,071 shares reacquired by the Company.

24.3 Revaluation Reserves

Revaluation reserves of the Group is composed of remeasurements on its retirement benefit obligation and fair value movements of the Group's available-for-sale financial assets (see Notes 8 and 21.2).

24.4 Retained Earnings

Retained earnings is restricted in the amount of P102.1 million representing the cost of 127,256,071 shares held in treasury as of the end of the reporting periods.

25. EARNINGS PER SHARE

Basic and diluted earnings per share amounts were computed as follows:

	2017	2016	2015
Net profit attributable to parent company's shareholders	**P 631,658,401**	P 599,969,525	P 547,278,548
Divided by the weighted average number of issued and outstanding common shares	**14,676,199,167**	14,676,199,167	14,676,199,167
Basic and diluted earnings per share	**P 0.043**	P 0.041	P 0.037

26. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

26.1 Operating Lease Commitments – Group as Lessor

The Group is a lessor under various non-cancellable operating lease agreements covering real state properties for commercial use. The leases have terms ranging from one to three years, with renewal options, and include annual escalation rates of 3% to 10%. The average annual rental covering these agreements amounts to about P146.4 million, P105.3 million and P106.1 million in 2017, 2016, 2015, respectively, in which are recognized as Rental Income account under Revenues and Income section in the consolidated statements of comprehensive income.

The future minimum rental receivable under these non-cancellable operating leases are as follows as of December 31:

	2017	2016	2015
Within one year	**P 74,454,775**	P 77,057,328	P 49,079,317
After one year but not more than five years	**185,623,464**	114,134,834	128,812,674
More than five years	**87,042,341**	53,279,333	40,904,125
	P 347,120,580	P 244,921,495	P 218,796,116

26.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under non-cancellable operating leases covering certain offices, showroom and parking slots. The leases have terms ranging from one to four years, with renewal options and include annual escalation rate of 5% to 10%. The future minimum rental payable under these non-cancellable operating leases are as follows as of December 31:

	2017	2016	2015
Within one year	**P 80,753,199**	P 52,404,114	P 44,818,370
After one year but not more than five years	**277,659,269**	68,054,109	42,648,823
	P 358,412,468	P 120,458,223	P 87,467,193

Total rentals from these operating leases which was charged to Rentals under Other Expenses account in the consolidated statements of comprehensive income amounted to P228.4 million, P251.9 million, and P228.1 million in 2017, 2016 and 2015, respectively (see Note 19.2).

26.3 Legal Claims

As of December 31, 2017 and 2016, the Group does not have any litigations within and outside the normal course of its business.

26.4 Credit Lines

The Group has existing credit lines with local banks for a maximum amount of P4,470.0 million and P4,670.0 million as of December 31, 2017 and 2016, respectively. The Group has unused lines of credit amounting to P1,070.0 million and P670.0 million as of December 31, 2017 and 2016, respectively.

26.5 Capital Commitments

As of December 31, 2017, the Group has fully utilized the balance of its stock rights offering; hence, no capital commitments pertaining to landbanking, project development and general corporate purposes were outstanding as of the end of the period.

26.6 Others

There are other commitments and contingent liabilities that may arise in the normal course of operations of the Group which are not reflected in the consolidated financial statements. The management of the Group is of the opinion that losses, if any, from these items will not have any material effect on its consolidated financial statements, taken as a whole.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating, investing, and financing activities. Risk management is carried out by a central treasury department under policies approved by the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

27.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, and interest rate risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Foreign exchange risk arises from the Group's United States (U.S.) dollar-denominated cash and cash equivalents (see Note 5).

The Group's U.S. dollar-denominated financial assets, translated into Philippine pesos at the closing rate, amounted to P21.5 million, P3.2 million, and P53.3 million as of December 31, 2017, 2016 and 2015, respectively. There were no U.S. dollar-denominated financial liabilities as of December 31, 2017, 2016 and 2015.

At December 31, 2017, 2016 and 2015, if the Philippine peso had strengthened by 10.77%, 12.91%, and 10.42% against the U.S. dollar with all other variables held constant, profit before tax for the year would have been lower by P2.3 million, P0.4 million and P5.6 million, respectively, mainly as a result of foreign currency loss on translation of U.S. dollar-denominated cash and cash equivalents.

On the other hand, if the peso had weakened by the same percentage, with all other variables held constant, profit before tax would have been higher by the same amount in each of those years.

The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99.00% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) Interest Rate Risk

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. The Group's interest rate risk largely arises from cash and cash equivalents and interest-bearing loans and borrowings, which are subject to variable interest rates. All other financial assets and liabilities have fixed rates.

The following table presents the sensitivity of the Group's profit before tax for the year to a reasonably possible change in interest rate of +/-0.96%, +/-0.60% and +/-0.87% for cash and cash equivalents and +/-1.68%, +/-1.33% and +/-2.03% for interest-bearing loans and borrowings in 2017, 2016 and 2015, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on changes in the average market interest rates for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	2017		2016		2015	
	+0.96/1.68	**-0.96/1.68**	+0.60/1.33	-0.60/1.33	+0.87/2.03	-0.87/2.03
Profit before tax	**(20,644,084)**	**20,644,084**	(20,740,796)	20,740,796	(17,126,054)	17,126,054

The movements in interest rates used in the sensitivity analysis are considered reasonably possible and are based on observation of interest rate fluctuations for the past 12 months using a 99.00%-confidence level. The calculations are based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year.

(c) Other Price Risk

The Group's market price risk arises from its investments carried at fair value (classified as AFS financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

For equity securities listed in the Philippines, an average volatility of 19.14% and 19.98% has been observed during 2017 and 2016, respectively. If quoted price for these securities increased or decreased by that percentage, the equity would have increased or decreased by P344.8 million in 2017 and P287.5 million in 2016.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Group's favor.

The Group is not subject to commodity price risk.

27.2 Credit Risk

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below.

	Notes	**2017**	2016
Cash and cash equivalents	5	**P 1,280,896,149**	P 1,008,997,919
Trade and other receivables - net (excluding advances to suppliers and contractors)	6	**8,271,177,977**	6,589,307,708
Advances to related parties	23.1	**2,502,356,313**	2,311,257,801
		P 12,054,430,439	P 9,909,563,428

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents and trade receivables under Trade and Other Receivables, as described below and in the succeeding page.

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) Trade and Other Receivables

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Majority of the trade receivables are secured by postdated checks. Also, titles to residential units sold to buyers are retained to the Group until such time that the outstanding balance is collected in full. Based on historical information about customer default rates, management consider the credit quality of trade receivables that are not past due or impaired to be good.

Some of the unimpaired trade receivables are past due as at the end of the reporting period. The trade receivables that are past due but not impaired are as follows:

	2017	2016
Not more than three months	**P 72,473,313**	P 42,624,811
More than three months but not more than six months	**193,771,452**	177,536,007
More than six months but not more than one year	**185,199,796**	171,672,446
More than one year	**57,725,785**	56,702,717
	P 509,170,346	P 448,535,981

(c) Advances to Related Parties

The Group is not exposed to significant credit risk as advances are made to reputable entities.

The table below shows the credit quality by class of financial assets as of December 31, 2017.

	Neither Past Due nor Specifically Impaired			Past Due or	
	High Grade	Standard Grade	Substandard Grade	Individually Impaired	Total
Cash and cash equivalents	P 1,280,896,149	P -	P -	P -	P 1,280,896,149
Trade and other receivables	-	7,762,007,631	-	509,443,468	8,271,451,099
Advances to related parties	-	2,502,356,313	-	-	2,502,356,313
	P 1,280,896,149	**P 10,264,363,944**	**P -**	**P 509,443,468**	**P 12,054,703,561**

This compares with the credit quality by class of financial assets as of December 31, 2016.

	Neither Past Due nor Specifically Impaired			Past Due or	
	High Grade	Standard Grade	Substandard Grade	Individually Impaired	Total
Cash and cash equivalents	P 1,008,997,919	P -	P -	P -	1,008,997,919
Trade and other receivables	-	6,140,771,727	-	448,998,383	6,589,770,110
Advances to related parties	-	2,311,257,801	-	-	2,311,257,801
	P 1,008,997,919	**P 8,452,029,528**	**P -**	**P 448,998,383**	**P 9,910,025,830**

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates are of good credit quality, including those that are past due.

27.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for 6-month and one-year periods are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2017, the Group's financial liabilities have contractual maturities which are presented below.

	Within One Year	**One to Five Years**	**More than Five Years**
Interest-bearing loans and borrowings	P 825,782,792	P 1,369,268,000	P -
Trade and other payables	1,673,833,009	-	-
Advances from related parties	3,891,099,978	-	-
Other current liabilities	678,774,641	-	-
	P 7,069,490,420	**P 1,369,268,000**	**P -**

This compares to the contractual maturities of the Group's financial liabilities as of December 31, 2016.

	Within One Year	One to Five Years	More than Five Years
Interest-bearing loans and borrowings	P 443,479,080	P 1,786,311,643	P 5,963,400
Trade and other payables	1,362,915,988	-	-
Advances from related parties	3,205,523,722	-	-
Other current liabilities	584,715,486	-	-
	P 5,596,634,276	P 1,786,311,643	P 5,963,400

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of each reporting period.

28. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

28.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

		2017		2016	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial assets					
Loans and Receivables:					
Cash and cash equivalents	5	**P 1,280,896,149**	**P 1,280,896,149**	P 1,008,997,919	P 1,008,997,919
Trade and other receivables - net	6	**8,271,177,977**	**8,271,177,977**	6,589,307,708	6,589,307,708
Advances to related parties	23.1	**2,502,356,313**	**2,502,356,313**	2,311,257,801	2,311,257,801
		12,054,430,439	**12,054,430,439**	9,909,563,428	9,909,563,428
AFS financial assets	8	**1,801,600,000**	**1,801,600,000**	1,439,028,000	1,439,028,000
		P 13,856,030,439	**P 13,856,030,439**	P 11,348,591,428	P 11,348,591,428
Financial Liabilities at amortized cost					
Interest-bearing loans and borrowings	14	**P 2,001,412,976**	**P 1,964,842,671**	P 1,958,549,476	P 1,909,860,996
Trade and other payables	15	**1,673,833,009**	**1,673,833,009**	1,362,915,988	1,362,915,988
Advances from related parties	23.1	**3,678,125,997**	**3,678,125,997**	3,012,266,199	3,012,266,199
Other current liabilities	17	**678,774,641**	**678,774,641**	584,715,486	584,715,486
		P 8,032,146,623	**P 7,995,576,318**	P 6,918,447,149	P 6,869,758,669

See Notes 2.4 and 2.8 for the description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 27.

28.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets with net amounts presented in the consolidated statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set-off in theconsolidated statement of financial position		
	Financial assets	**Financial liabilities set-off**		**Financial instruments**	**Collateral received**	**Net amount**
December 31, 2017						
Advances to related parties	**P 2,504,676,044**	**(P 2,319,731)**	**P 2,502,356,313**	**P -**	**P -**	**P 2,502,,356,313**
December 31, 2016						
Advances to related parties	**P 2,312,560,545**	**(P 1,302,744)**	**P 2,311,257,801**	**P -**	**P -**	**P 2,311,257,801**

The following financial liabilities with net amounts presented in the consolidated statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set-off in the consolidated statement of financial position		
	Financial liabilities	**Financial assets set-off**		**Financial instruments**	**Collateral provided**	**Net amount**
December 31, 2017						
Interest-bearing loans and borrowings	P 2,001,412,976	P -	P 2,001,412,976	P -	(P 2,001,412,976)	P -
Advances from related parties	3,678,125,997	-	3,678,125,997	-	(450,339)	3,677,675,658
	P 5,679,538,973	P -	P 5,679,538,973	P -	(P 2,001,863,315)	P 3,677,675,658
December 31, 2016						
Interest-bearing loans and borrowings	P 1,958,549,476	P -	P 1,958,549,476	P -	(P 1,958,549,476)	P -
Advances from related parties	3,012,266,199	-	3,012,266,199	-	(614,926)	3,011,651,273
	P 4,970,815,675	P -	P 4,970,815,675	P -	(P 1,959,164,402)	P 3,011,651,273

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements, each agreement between the Group and counterparties (i.e., related parties including subsidiaries and associates) allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

29. FAIR VALUE MEASUREMENT AND DISCLOSURES

29.1 Fair Value Hierarchy

In accordance with PFRS 13, Fair Value Measurement, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

29.2 Financial Instruments Measured at Fair Value

As of December 31, 2017 and 2016, only the equity securities classified as AFS financial assets in the consolidated statements of financial position is classified as Level 1. These securities were valued based on their market prices quoted in the PSE at the end of each reporting period (see Note 8). There were no other financial assets measured at fair value on these dates. Further, the Group has no financial liabilities measured at fair value as of December 31, 2017 and 2016.

There were no transfers between Levels 1 and 2 in both years.

29.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

	Notes	Level 1	Level 2	Level 3	Total
2017					
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	P 1,280,896,149	P -	P -	P 1,280,896,149
Trade and other receivables	6	-	-	8,271,177,977	8,271,177,977
Advances to related parties	23.1	-	-	2,502,356,313	2,502,356,313
		P 1,280,896,149	**P -**	**P 10,773,534,290**	**P 12,054,430,439**
Financial Liabilities at amortized cost					
Interest-bearing					
loans and borrowings	14	P -	P -	P 1,964,842,671	P 1,964,842,671
Trade and other payables	15	-	-	1,673,833,009	1,673,833,009
Advances from related parties	23.1	-	-	3,678,125,997	3,678,125,997
Other current liabilities	17	-	-	678,774,641	678,774,641
		P -	**P -**	**P 7,995,576,318**	**P 7,995,576,318**

	Notes	Level 1	Level 2	Level 3	Total
2016					
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	P 1,008,997,919	P -	P -	P 1,008,997,919
Trade and other receivables	6	-	-	6,589,307,708	6,589,307,708
Advances to related parties	23.1	-	-	2,311,257,801	2,311,257,801
		P 1,008,997,919	P -	P 8,900,565,509	P 9,909,563,428
Financial Liabilities at amortized cost					
Interest-bearing					
loans and borrowings	14	P -	P -	P 1,909,860,996	P 1,909,860,996
Trade and other payables	15	-	-	1,362,915,988	1,362,915,988
Advances from related parties	23.1	-	-	3,012,266,199	3,012,266,199
Other current liabilities	17	-	-	584,715,486	584,715,486
		P -	P -	6,869,758,669	P 6,869,758,669

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short-term duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability.

29.4 Fair Value Measurement of Non-Financial Assets

The table below shows the Levels within the hierarchy of non-financial assets for which fair value is disclosed as of December 31, 2017 and 2016.

	Level 1	Level 2	Level 3	Total
Investment property:				
Land	P -	P -	P 8,400,000	P 8,400,000
Buildings and office/commercial units	-	-	503,010,840	503,010,840
	P -	**P -**	**P 511,410,840**	**P 511,410,840**

The Level 3 fair value of the investment property was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with adjustments on the price for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. On the other hand, if the observable recent prices of the reference properties were not adjusted, the fair value is included in Level 2. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value.

30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Capital components for cost of capital purposes include loans and borrowings, preferred stock, common equity and retained earnings. The Group may issue new shares and may prepay some of its interest-bearing loans. Further, it intends to allocate its earnings and available cash in the acquisition and development of new/existing properties to ensure continuous business activities.

The Group monitors its capital gearing by measuring the ratio of interest-bearing loans and borrowings to total capital. As of December 31, the Group's ratio of interest-bearing loans and borrowings to equity is as follows:

	2017	2016
Interest-bearing loans and borrowings	**P 2,001,412,976**	P 1,958,549,476
Total equity	**25,941,367,590**	24,913,611,061
Debt-to-equity ratio	**0.08 : 1.00**	0.08 : 1.00

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for both years (see Note 14).

31. RECONCILLATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Company's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Interest - bearing Loans and Borrowing (see Note 14)	**Advances from Related Parties** (see Note 23)	**Total**
Balance as of January 1, 2017	P 1,958,549,476	P 3,012,266,199	P 4,970,815,675
Interest Charges	-	193,256,870	193,256,870
Cash flows from financing activities			
Additional borrowings	400,000,000	505,494,378	905,494,378
Repayment of borrowings	(357,136,500)	(32,891,450)	(390,027,950)
Balance as of December 31, 2017	**P 2,001,412,976**	**P 3,678,125,997**	**P 5,679,538,973**

Board of Directors

ANDREW L. TAN
Chairman of the Board

ANTHONY CHARLEMAGNE C. YU
President and CEO

EVELYN G. CACHO
Director/Senior Vice President

KEVIN ANDREW L. TAN
Director

ENRIQUE SANTOS L. SY
Director

CRESENCIO P. AQUINO
Independent Director

ALEJO L. VILLANUEVA, JR.
Independent Director

Empire East Land Holdings, Inc. Officers

PRESIDENT AND CEO

Anthony Charlemagne C. Yu

EXECUTIVE VICE PRESIDENT

Ricky S. Libago

SENIOR VICE PRESIDENT

Evelyn G. Cacho

FIRST VICE PRESIDENT FOR HUMAN RESOURCES AND GENERAL ADMINISTRATION SERVICES

Ricardo B. Gregorio

FIRST VICE PRESIDENT FOR MARKETING

Jhoanna Lyndelou T. Llaga

CORPORATE SECRETARY

Dennis E. Edaño

ASSISTANT CORPORATE SECRETARY

Celeste Z. Siozon-Bumatay

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Punongbayan & Araullo
Grant Thornton International

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Metropolitan Bank and Trust Company
Philippine National Bank
Rizal Commercial Banking Corporation
United Coconut Planters Bank
Unionbank of the Philippines

SUBSIDIARIES

Eastwood Property Holdings, Inc. (EPHI)
28/F The World Centre, 330 Sen. Gil Puyat Avenue
Makati City

Valle Verde Properties, Inc. (VVPI)
21/F The World Centre, 330 Sen. Gil Puyat Avenue
Makati City

Sherman Oak Holdings, Inc. (SOHI)
21/F The World Centre, 330 Sen. Gil Puyat Avenue
Makati City

Empire East Communities, Inc. (EECI)
21/F The World Centre, 330 Sen. Gil Puyat Avenue
Makati City

Laguna BelAir Science School, Inc. (LBASSI)
Laguna BelAir Subdivision
Barangay Don Jose, Sta. Rosa, Laguna

Sonoma Premier Land, Inc. (SPLI)
21/F The World Centre, 330 Sen. Gil Puyat Avenue
Makati City

20th Century Nylon Shirt Co. Inc. (20th Century)
632 Shaw Boulevard Brgy. Highway Hills
Mandaluyong City

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