

***Philippine Estates Corporation
and Subsidiary***

*Consolidated Financial Statements
December 31, 2016 and 2015*

and

Independent Auditors' Report



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with Philippine Financial Reporting Standards (PFRS), and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group's 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.

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.

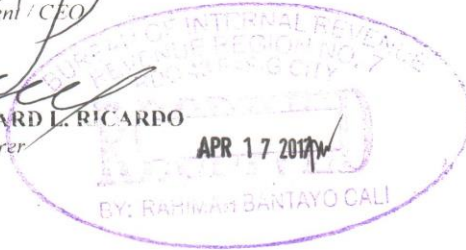
Diaz Murillo Dalupan and Company, the independent auditor, appointed by the stockholders has audited the financial statements in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ARTHUR M. LOPEZ
Chairman of the Board

JOCELYN A. VALLE
Finance Head

ELVIRA A. TING
President / CEO

RICHARD L. RICARDO
Treasurer



Signed this 7th day of April 2017 at Q.C.
SUBSCRIBED AND SWORN to before me APR 11 2017

ATTY. BENJAMIN F. ALFONSO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2017
PTR. NO. 3806946 - 1/16/2017 QUEZON CITY
IBP NO. 1038379 - 1/24/2010 QUEZON CITY
ROLL NO. 13268
ADM. MATTER NO. NR-046 (2017-2018)
ADD.: NO.34 ASSETO ST. NGIS VILL. P.10J.R.Q.C.
MCLE NO. II-0020276- OCT. 29 2014

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**Diaz Murillo Dalupan
and Company**

Certified Public Accountants

Independent Auditors' Report

To the Board of Directors and Stockholders of
PHILIPPINE ESTATES CORPORATION AND SUBSIDIARY
35th Floor, One Corporate Center,
Doña Julia Vargas Ave., corner Meralco Avenue,
Ortigas Center, Pasig City

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Philippine Estates Corporation and Subsidiary**, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, 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, and notes to 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended 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 Audits of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Code of Ethics for Professional Accountants in the Philippines (the '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. We have determined the matters described below to be the key audit matters to be communicated in our report.

Local in Touch, Global in Reach

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Cebu Office : Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Phone: +63(32) 415 8108 - 10 / Fax: +63(32) 232 8029
Davao Office : 3rd Floor Building B Plaza De Luisa, Ramon Magsaysay Avenue, Davao City 8000 Phone/Fax: +63(82) 222 6636
Website : www.drmdcpa.com.ph

an independent member of  International. A worldwide organization of accounting firms and business advisers.

Valuation of Advances to Related Parties

The advances to related parties represents major part of the total assets. Portion of the advances to related parties pertains to interest bearing unsecured cash advances. Thus, the valuation of the receivables was significant to our audit due to the materiality of the amount.

Our response

Our audit procedures to address the risk of material misstatement relating to valuation of advances receivables, which was considered to be a significant risk, included:

- Reviewed subsequent collections/ application of payments of related parties.
- Confirmed the necessity and adequacy of impairment provisions by reviewing correspondence and other documentation.
- Inspected related parties' files on overdue debts for evidence of disputes and the profitability of settlement, ensure adequate provision has made.
- Examined financial statements of related parties and assess the financial capacity to pay.
- Inspected financial statements of related parties if the receivables are reflected.
- Considered the related parties' management/ business plans to continue as a going concern entity.

The Group's disclosures about its advances to related parties are included in Note 21.

Revenue Recognition and Realization of Gross Profit

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from sale of real estate inventories is recognized based on percentage-of-completion and are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. However, for income tax computation purposes, the realized gross profit is computed based on collections.

Our response

Our audit procedures to address the risk of material misstatement relating to revenue recognition, which was considered to be a significant risk, included:

- Vouched and verified the sales and its corresponding cost of sales during the year to its supporting documents.
- Obtained the percentage of completion of each project from the contractors.
- Reviewed collections of receivables of prior years' sales for the realization of gross profit.
- Reviewed collections of receivables from current sales for the realization of gross profit.
- Verified the accuracy and mathematical calculations of each of the percentage of completion and peracetate of collections during the year.

The Group's disclosures about its sales, cost of sales as well as its deferred gross profit are included in Notes 15, 17 and 18.

Other information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, 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, 2016 are expected to be made available to us after the date of this auditor's 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 be 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 ease 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 Audits 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 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 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 audits. 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.

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 audits.

Diaz Murillo Dalupan and Company

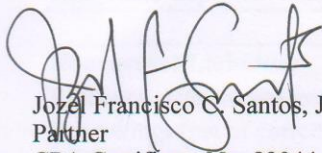
Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until December 31, 2017

SEC Accreditation No. 0192-FR-2, Group A, effective until May 1, 2019

BIR Accreditation No. 08-001911-000-2016, effective until March 17, 2019

By:



Jozel Francisco C. Santos, Jr.

Partner

CPA Certificate No. 89044

SEC Accreditation No. 1070-AR-1, Group A, effective until April 30, 2017

Tax Identification No. 170-035-673

PTR No. 5918243, January 10, 2017, Makati City

BIR Accreditation No. 08-001911-009-2016 effective until March 17, 2019

April 7, 2017