SEC Number: AS 094-004462
File Number: _________

**GLOBAL-ESTATE RESORTS, INC.**
(Company's Full Name)

7/F Renaissance Towers, Meralco Avenue
Pasig City
(Company's Address)

(632) 625-2568
(Telephone Number)

December 31, 2013
(Fiscal Year Ending)

**SEC Form 17 - A Annual Report**
(Form Type)

(Amendment Designation)

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17 - A

## ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended **December 31, 2013**
2. SEC Identification Number **AS 094-004462**
3. BIR Tax Identification No. **430-000-426-523**
4. Exact name of registrant as specified in its charter

**Global-Estate Resorts, Inc.**

5. Province, Country or other jurisdiction of incorporation or organization

**Pasig City, Philippines**

6. Industry Classification Code: ☐ (SEC Use only)

7. Address of principal office Postal Code

**7/F Renaissance Towers, Meralco Ave., Pasig City** **1600**

8. Registrant's telephone number

**Tel No. (632) 625-2568**

9. Former name, former address, former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 & 8 of the RSA:

| Title of Each Class | Number of shares outstanding and amount of debt outstanding |
|---|---|
| **Common shares** | **10,986,000,000** |
| **Outstanding debts (loans)** | **None** |

11. Are any or all of these securities listed on the Philippine Stock Exchange

Yes **[X]** No [ ]

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):

Yes **[X]** No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes **[X]** No [ ]

13. Aggregate market value of the voting stock held by non-affiliates:

**₱ 2,408,169,439 (as of December 31, 2013) based on the closing price of Php1.35 per share**

## DOCUMENTS INCORPORATED BY REFERENCE

14. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

**2013 Audited Consolidated Financial Statements**
**(incorporated as reference for Item 7 of SEC Form 17-A)**

## TABLE OF CONTENTS

## PART I – BUSINESS AND GENERAL INFORMATION

### ITEM 1. BUSINESS

**Business Development**

**Form and Date of Organization**

Global-Estate Resorts, Inc. ("GERI" or the "Company") formerly Fil-Estate Land, Inc. was incorporated on May 18, 1994 to consolidate the real estate interests and development activities of the Fil-Estate Group of Companies. GERI is also tasked to engage in land acquisitions and to maintain an inventory of raw land for future development by the Company and its subsidiaries. GERI went public in November 1995 when its common shares were listed in the Philippine Stock Exchange (PSE).

GERI is one of the leading property development companies in the Philippines and has operated through predecessor companies since 1981. The Company engages primarily in the horizontal development of residential subdivision lots, integrated residential, golf and other leisure-related properties, integrated tourism estates development and vertical development of mixed-use towers.

The Company reduces its capital exposure substantially by acquiring its land bank through joint ventures with landowners. These agreements generally provide that the Company will undertake the development and marketing of the project.

GERI has seven (7) subsidiaries:

**Fil-Estate Properties, Inc. ("FEPI")**, was incorporated and organized under the laws of the Philippines on February 13, 1990. FEPI is involved in the development/construction and sale of residential subdivisions and commercial lots, condominium buildings and townhouses and sale of golf and resort shares.

**Fil-Estate Golf and Development, Inc. ("FEGDI")**, was registered with the Securities and Exchange Commission (SEC) on March 6, 1990 to engage primarily in golf and leisure development. Among the notable projects undertaken/completed by FEGDI are The Manila Southwoods Golf Course in Carmona, Cavite, and Forest Hills Golf Course in Antipolo City .

**Fil-Estate Urban Development Corporation ("FEUDC")** was incorporated and organized under the laws of the Philippines on March 6, 2000. FEUDC's primary purpose is to acquire by purchase, lease, donation, or otherwise or to own, use, improve, develop, subdivide, sell, exchange, lease, hold for investment or otherwise, real estate of all kinds, including building, houses, apartments and other structures and to construct, improve, manage or otherwise dispose of buildings, condominiums and other structures of whatever kinds, together with their appurtenances; and to perform all and everything necessary and proper for the attainment of or in furtherance of this purpose, either alone or with other corporations or individuals. In 2011, FEUDC amended its Articles of Incorporation to include, as part of its primary purpose, operation of buildings, condominiums and other structures such as hotels, including but not limited to the operation of dining, function, and lodging facilities. Its development projects include townhouses and hotels.

**Novo Sierra Holdings Corporation ("Novo Sierra")** was incorporated and organized under the laws of the Philippines on March 4, 2010. Novo Sierra's primary purpose is to invest in, purchase or otherwise acquire and hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidence of indebtedness, contracts and other securities and obligations of any corporation, partnership, company or association, whether domestic or foreign for whatever lawful purpose or purposes the same way have been organized; and to pay therefore in money or by exchanging therefore in stocks, bonds, debentures, notes or other evidences of indebtedness or securities, and while the owner or holder of such notes, evidence of indebtedness, contracts and other securities and obligations of any corporation; to receive, collect and dispose of the interest, dividends and income arising from such property and investments and to possess and exercise in respect thereof, all rights and powers and privileges of ownership to the extent authorized by law, without however engaging in any banking or quasi-banking activities, nor shall the corporation engage in the business of an investment company as defined in the Investment Company Act (R.A. 2629) without complying with the provisions of the said act; provided it shall not engage in stock brokerage and dealer in securities.

**Twin Lakes Corporation ("Twin Lakes")** was incorporated and organized under the laws of the Philippines on March 2, 2011. Twin Lakes primary purpose is to acquire by purchase, lease, donation or otherwise and to own, use, improve, develop and hold for investment or otherwise, real estate of all kinds, and to construct, improve, manage or otherwise deal in or dispose lots, buildings, house and lots, as well as condominium units, townhouses, shopping malls, commercial centers, retirement communities, schools and dormitories, mixed-use property projects and other structures of whatever kind and description, together with any and all of their appurtenances, with the end in view of building and establishing new communities, towns, cities and urban centers.

**Megaworld Global-Estate, Inc. ("MGEI")** was incorporated and organized under the laws of the Philippines on March14, 2011. MGEI primary purpose is to market, acquire, hold, operate, dispose of by purchase, sale, exchange, mortgage, barter, lease or in any other manner, conditionally or absolutely, real estate and/or improvements thereon or other properties for residential, commercial or recreational purposes, or any interest therein, and to own, hold, improve, develop and manage any real estate, golf course, buildings, structures or other properties or interest therein so acquired, as well as erect or cause to be erected on any real estate or other properties, held or occupied by the corporation buildings, plants, factories, recreation facilities, or other similar structures with their appurtenances. It acts as the marketing arm of the Company and its subsidiaries.

**Oceanfront Properties, Inc. ("OPI")** was incorporated on October 12, 2010 and started commercial operations on August 9, 2012. OPI was incorporated primarily to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.

GERI also owns 20% of the equity of four (4) marketing companies namely Fil-Estate Realty Corporation ("FERC"), Fil-Estate Network, Inc. ("FENI"), Fil-Estate Sales, Inc. ("FESI") and Fil-Estate Realty Sales Associates, Inc. ("FERSAI") which formerly marketed the old projects of GERI prior to the formation of MGEI.

**Bankruptcy, Receivership or Similar Proceedings**

None for any of the companies above.

**Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary)**

None for any of the companies above.

**Products**

The Company has a diversified portfolio of integrated projects, including (i) integrated tourism estates development, (ii) horizontal residential subdivision lots and residential / commercial complexes, (iii) residential communities integrated with golf, resort and other leisure related and commercial complexes, (iv) residential, office and commercial high rise, (v) business park, and (vi) low cost housing.

**Percentage of sales or revenues and net income contributed by foreign sales**

The Company starts to generate sales from foreign market and it contributes 8% of the consolidated real estate sales for the year 2013.

**Distribution Methods of Products**

The Company's products are distributed to a wide range of clients through its in-house marketing company which acts as the marketing arm of the Company and its subsidiaries.

**Suppliers**

The Company has a broad base of local suppliers.

**Customers**

GERI has a broad market base that is presently focused on local individuals, corporations, partnerships and foreign market.

The Company caters to all segments of the real estate market for its developments. Residential lots and affordable housing units are focused on the B market. The Company targets the A and B markets with special niche products such as integrated tourism estates, residential, commercial and leisure developments and condominium units. In line with the Company's focus on integrated tourism estates, sales to the latter segments are expected to provide the biggest source of revenues for the Company.

**Competition**

The real estate business in the Philippines remains highly competitive. The most prominent of these competitors are Ayala Land, Inc., Robinsons Land, SM Development Corporation, Filinvest, Vista Land, Landco and Sta. Lucia Realty. The Company competes with other developers in entering into joint venture arrangement with strategic partners, locate and acquire highly marketable raw lands for development located in Metro Manila and in provinces.

The Company aims to be one of the leading developers of integrated tourism estates in the Philippines. The Company's tourism estate projects located in Boracay, Nasugbu & Laurel, Batangas which feature integrated master-planned communities with world class offerings and amenities, are designed to set new standards in the Philippine tourism industry.

The Company believes that its strategically located land bank, and reputation as an experienced developer and effective marketer of innovative real estate products gives it a competitive advantage. Its ownership of at least 15% of the Boracay Island, the number one tourist destination in the Philippines, together with its prime land inventory comprising 1,210 hectares and 600 hectares respectively in Laurel and Nasugbu, Batangas gives it a lead over its competitors. Some of its competitors have their name and relative number of years in the business as their strength, but they focus on specific projects. The Company, on the other hand, is a pioneer in master-planned integrated tourism developments which its competitors have yet to venture in.

**Transactions with and/or dependence on related parties**

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and related parties including investments in and advances granted to or obtained from subsidiaries, associates and other related parties for purposes of working capital requirements. For more information, see Note 20 to the Audited Financial Statements.

**Amount spent on research and development activities and its percentage to revenues**

The Company incurs minimal amounts for research and development activities which do not amount to a significant percentage of revenues.

**Intellectual Property**

The Company believes that its operations and that of its subsidiaries are not dependent on any trademark, patent, copyright, license, franchise or royalty agreement. Nonetheless, the Company has filed with the Intellectual Property Office separate applications to register and protect the trademarks "Global-Estate Resorts, Inc.," "Boracay Newcoast," "Twin Lakes," "Harbortown," and their respective logos/devices.

**Government Approvals / Regulations**
The Company secures various government approvals such as the ECC, development permits, license to sell, etc. as part of the normal course of its business.

*Development Permit and License to Sell*
Presidential Decree No. 957, as amended, requires landowners / developers to submit a registration statement and subdivision / condominium plan to the Housing and Land Use Regulatory Board ("HLURB"). Upon submission of the plan, the HLURB issues a development permit authorizing the development of the land, and upon filing of a performance bond as may be determined by the HLURB, the latter issues a License to Sell and a Certificate of Registration to the owner / developer.

*Agrarian Reform Law*
The Comprehensive Agrarian Reform Law covers: (a) alienable and disposable lands of the public domain devoted to or suitable for agriculture, (b) land owned by the Government devoted to or suitable for agriculture. No person may own or retain, directly or indirectly, any public or private agricultural land, in excess of five (5) hectares. A limit of three (3) hectares may be awarded to each child of the landowners, subject to certain qualifications. The law allows the conversion of agricultural lands to non-agricultural use when the land ceases to be economically feasible and sound for agricultural purposes. Furthermore, the Department of Agrarian Reform Administrative Order No. 01 s. 1990 provides that any such classification or re-classification made after June 15, 1988 shall be subject to Department of Agrarian Reform ("DAR") approval.

*Environmental Compliance Certificate*
As a general rule, developers of residential subdivisions have to submit project descriptions to regional offices of the Department of Environment and Natural Resources ("DENR"). Such descriptions set out the background of the proposed project and identify any significant environmental risk and possible measures to mitigate such environmental risks. In exceptional cases of environmentally critical projects (e.g., golf courses, beach resorts, developments adjacent to watershed areas, etc.), a detailed Environmental Impact Assessment may be required and the developer will be required to obtain Environmental Compliance Certificate ("ECC") from the DENR. Compliance with the terms and conditions of the ECC will be monitored by the appropriate DENR regional office and failure to comply may lead to penalties and sanctions being imposed, including fines and / or temporary cessation of project operation.

As a real estate developer, the Company is required to secure development permits and licenses to sell from the HLURB and land conversions from agricultural to non-agricultural use when applicable, from DAR and environmental compliance certificates from the DENR for environmentally critical projects.

In addition to compliance with said government regulations, the Company shares in the country's vision of attaining economic prosperity and stability through sustainable development. Recognizing its important role as a property developer in a growing nation, the Company pursues its mission of service - *sustainable property development* - by building communities dedicated to quality living, work and recreation, while protecting and enhancing the environment.

**Effect of Existing and Probable Government Regulations**

Republic Act No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer; within the same or adjacent regions, whenever feasible, and in accordance with the standards set by the HLURB.

Tax Regulations

On May 24, 2005, the President of the Philippines signed into law Republic Act No. 9337 (RA 9337), which, effective November 1, 2005, introduced the following changes, among others:

a. Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
b. Grant of authority to the Philippine President to increase the 10% value added tax (VAT) rate to 12%, subject to compliance with certain economic conditions. The 12% VAT took effect on February 1, 2006; and
c. Revenue Regulations No. 16-2011 increasing the amount of threshold amounts for sale of residential lot, sale of house and lot effective January 01, 2012. Sale of residential lots with gross selling price of P1,919,500 or less, and residential house and lots with gross selling price of P3,199,200 or less, are not subject to Value Added Tax (VAT)

The Maceda Law

The Maceda Law applies to all transactions or contracts involving the sale or financing of real estate on installment payments (including residential condominium units but excluding industrial and commercial lots). Under the provisions of the law, where a buyer of real estate has paid at least two years of installments, the buyer is entitled to the following rights in case he/she defaults in the payment of succeeding installments:

a. To pay, without additional interest, the unpaid installments due within the total grace period earned by him, which is fixed at the rate of one (1) month grace period for every one (1) year of installment payments made. However, the buyer may exercise this right only once in every five (5) years during the term of the contract and its extensions, if any.
b. If the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to 50% of the total payments made, and in cases where five (5) years installments have been paid, an additional 5% every year (but with a total not to exceed 90% of the total payments).

Where a buyer has paid less than two years of installments, the buyer is entitled to pay the outstanding amount due without interest within a grace period of sixty (60) days from the date the installments became due.

The Company accords buyers their rights under the law and in certain cases, made appropriate refunds to some buyers.

Zoning and Land Use

The Department of Agrarian Reform (DAR) has issued regulations to effect the provisions of the Agrarian Reform Law in the Philippines. Under the law, all land classified for agricultural purposes as of or after June 1, 1988 cannot be converted to non-agricultural use without the prior approval of the DAR.

Land use may also be limited by the zoning ordinances of Local Government Units. Lands may be classified as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process maybe lengthy and cumbersome.

The Company diligently adheres to the provision of the agrarian reform law and local ordinances in cases where a certain project requires the conversion of the land use.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (ECC) prior to commencement of development. The Department of Environment and Natural Resources (DENR) through its regional offices or through the Environmental Management Bureau (EMB), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement (EIS) to the EMB while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination (IEE) to the proper DENR regional office.

GERI maintains that it has complied with all applicable Philippine environmental laws and regulations. Compliance with such laws, in GERI's opinion, is not expected to have a material effect on GERI's capital expenditures, earnings or competitive position in the property market.

**Employees**

As of December 31, 2013, GERI group has a total of 434 employees, divided into:

| | | |
|---|---|---|
| Top Management | - | 9 |
| Middle Management | - | 62 |
| Rank and File | - | 363 |

The Company expects to further increase its number of employees in the next 12 months.

The employees are not subject to any collective bargaining agreements. There has been no employees union since the start of Company's operations.

In addition to basic salary and 13$^{th}$ month pay, other supplemental benefits provided by GERI to its employees include: retirement benefits, vacation and sick leaves, rice subsidy, dental benefits, and hospitalization benefits.

***Risk Factors Relating to the Company***

*Highly Competitive Business Environment*

The Company faces increased competition from other developers who undertake residential subdivisions and vertical residential, commercial and office projects, particularly in key cities of the Philippines where several of the Company's present and future projects are located.

Notwithstanding increased competition in the industry, GERI intends to enhance its position as one of the leading property developers of integrated tourism estates in the Philippines. The Company's track record and marketing and sales force, and strategically located land bank are perceived to be major advantages against this anticipated growth in competition. It has been a major player in the industry through predecessor companies since 1981.

*Demand for Real Estate Project Developments Related to Leisure and Recreation*

A portion of the Company's projected revenues and income comes from the sale of properties for secondary or vacation residences, and golf and resort share club shares. Demand for such projects is perceived to be significantly affected by any major natural calamity or change in the economic and political conditions of the country.

The Company remains on the look-out for growth opportunities in different market segments and geographic areas in order that any negative impact on a particular market segment or geographic area by reason of political, economic or other factors will allow it to pursue its projects or other developments not affected thereby, thus providing it with a steady revenue base.

*Limitations on Land Acquisition*

As other developers race to acquire choice locations, it may become more difficult to locate parcels of suitable size in location and at prices acceptable to the Company that will enhance its present land bank. In this regard, the Company continues to explore joint ventures as an alternative to building its land bank and continue identifying properties that can be developed under project agreements with landowners.

*Legal Issues or Disputes on Projects*

The implementation of projects entered into by the Company may be affected by any legal issues generally arising from the ownership of the real estate properties. Certain properties presently being developed or proposed for development in the immediate term are currently the subject of legal proceedings whose resolution is still indeterminate.

The Company is endeavoring to resolve such legal issues at the shortest time possible. Nevertheless, these disputed projects are not expected to negatively impact the Company's business or its financial condition.

*Government Approvals, Licenses and Permits*
The implementation of projects require various government permits, approval and clearances from various municipal, city, regional and national government authorities and offices, such as, among others, the Development Permit, Certificate of Registration, License to Sell and in certain instances, the Environment Compliance Certificate. Accordingly, any delays in obtaining such government permits, approvals and clearances may affect the Company's projects.

The Company is taking every effort to ensure that it will comply with all the requirements in a timely and orderly manner in securing the approval, permits and licenses. It intends to secure the necessary documentation within a reasonable period of time.

*Political and Economic Factors*
In general, the profitability of the Company depends on the overall demand for Company's products which in turn is affected by political and economic factors. Any political instability in the future may have a negative effect on the viability of real estate companies. Economic factors such as substantial increases in interest and financing costs may dampen the overall demand for Company's products in the future, thus affecting the Company's profitability.

*Credit Risk*
Generally, the Group's credit risk is attributable to trade receivables, rental receivables and other financial assets. The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. 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.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position.

*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, as well as on the basis of a rolling 30-day projection.

Long-term needs for a six-month and one-year period 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 or short-term marketable securities. 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.

*Interest Rate Risk*
The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group follows prudent policies in managing its exposures to interest rate fluctuation, and constantly monitors its exposure to fluctuation in interest rates to estimate the impact of interest rate movements on its interest expense.

Borrowings of the Group are usually at fixed rates and as of December 2011 and 2012 there were no outstanding loans from bank and other financing institutions. Thus, no interest rate sensitivity analysis is presented.

*Foreign Exchange Risk*
Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposure to currency exchange rates arise mainly from the Group's U.S. dollar-denominated cash and cash equivalents which have been used to fund new projects.

Management assessed that the foreign currency risks related to these U.S dollar-denominated cash and cash equivalents to be not material.

As of December 31, 2013, the Group has no outstanding foreign denominated loans.

## ITEM 2. PROPERTIES

As part of its land bank, the Company owns 2,137 hectares of landholdings which are valued at a cost of Php7.48 billion.

These land bank held for future development are strategically located in various parts of the country, but a large portion is located in Sta. Barbara, Iloilo, Boracay, Laurel, and Nasugbu Batangas.

The total land area under joint venture is subject to various joint venture agreements with different landowner partners. The average joint venture sharing for residential subdivision and golf course communities ranges from 55%-78% in favor of GERI.

The inventory portfolio of the Company consists mainly of inventory also strategically located in various parts of the country but mainly in Iloilo, Boracay, Nasugbu and Laurel, Batangas. Real estate and golf club and resort shares for sale and land held for future development are valued at the lower of cost or net realizable value in conformity with PAS 2 "Inventories". Cost includes the acquisition cost of the land plus all costs directly attributable to the acquisition for projects where the Company is the landowner, and includes actual development cost incurred up to balance sheet date for projects where the Company is the developer. Net realizable value is the selling price in the ordinary course of business less cost to complete and to market. A valuation allowance is provided for real estate and golf club and resort shares for sale and land held for future development when the net realizable values of the properties are less than the carrying costs.

As of the filing of this report, the Company has no definitive plans to undertake any major acquisition. It is, however, open to small acquisitions as part of expansion of its present major projects as the opportunity may present itself. Funding for these small acquisitions will be internally-generated. The existing residential subdivisions, condominiums, condotels, townhouses, and leisure development projects of the Company and its subsidiaries are as follows. :

| PROJECT NAME | LOCATION | LIMITATIONS ON OWNERSHIP |
|---|---|---|
| 8 Sto. Domingo Place | Quezon City | Joint Venture |
| Belmont Hotel Boracay | Malay, Aklan | None |
| Buenavida Village | Naga City | None |
| Buenavista Hills | Tagaytay | Joint Venture |
| Caliraya Springs | Cavinti, Laguna | Joint Venture |
| Cathedral Heights | Quezon City | Joint Venture |
| Capitol Plaza | Quezon City | Co-development |
| Central Park Place | Mandaluyong City | Joint Venture |
| Fairways & Bluewaters | Boracay, Aklan | None |
| Festival Villas | Dueñas, Iloilo | None |
| Forest Hills | Antipolo City | Joint Venture |
| Goldridge Estate | Guiguinto, Bulacan | Joint Venture |
| Holiday Homes | Gen. Trias, Cavite | Joint Venture |
| Magnificat Executive Village | Lipa, Batangas | Joint Venture |
| Mango Orchard Plantation | Naic, Cavite | Joint Venture |
| Manila Southwoods | Biñan, Laguna | Joint Venture |
| Monte Cielo De Naga | Naga City | Joint Venture |
| Monte Cielo De Penafrancia | Naga City | Joint Venture |
| Mountain Meadows | Cagayan De Oro | Joint Venture |
| Newcoast Village | Malay, Aklan | None |
| Newcoast Shophouse | Malay, Aklan | Joint Venture |
| Newcoast Boutique Hotel | Malay, Aklan | Joint Venture |
| Newcoast Oceanway Residences | Malay, Aklan | None |
| Newport Hills | Lian, Batangas | Joint Venture |
| Nasugbu Harbour Town | Nasugbu, Batangas | Joint Venture |

| | | |
|---|---|---|
| Northpointe | Baguio City | Joint Venture |
| Pahara at Southwoods[1] | GMA, Cavite | Joint Venture |
| Palacio Real | Calamba, Laguna | Joint Venture |
| Palmridge Point | Talisay, Batangas | Joint Venture |
| Parco Bello | Muntinlupa City | Joint Venture |
| Parklane Square | Las Piñas City | Joint Venture |
| Parkridge Estate | Antipolo City | Joint Venture |
| Paragon Plaza | Mandaluyong City | Joint Venture |
| Plaridel Heights | Plaridel, Bulacan | Joint Venture |
| Puerto Del Mar | Lucena City | Joint Venture |
| Puerto Real De Iloilo | Iloilo | Joint Venture |
| Queensborough North | Pampanga | Joint Venture |
| Residencia Lipa | Lipa, Batangas | Joint Venture |
| Renaissance 5000 | Ortigas Ctr, Pasig City | Joint Venture |
| Richgate Condominium | Baguio City | None |
| Richgate Square | Baguio City | Joint Venture |
| Richview Square Exp'n | Baguio City | Joint Venture |
| Riverina | San Pablo City | Joint Venture |
| Savoy Hotel Boracay | Malay, Aklan | None |
| Sherwood Hills | Carmona, Cavite | Joint Venture |
| Southwoods Peak Exp'n | Carmona, Cavite | Joint Venture |
| Suburbia North - Ph 2 | Pampanga | Joint Venture |
| Sta. Barbara Heights | Sta. Barbara, Iloilo | Joint Venture |
| Tierra Vista | Lipa, Batangas | Joint Venture |
| Windsor Heights | Tagaytay | Joint Venture |
| West Tower | Makati City | Joint Venture |
| Villa Maria[2] | Fairways & Bluewater, Boracay | None |
| Villa Margarita[3] | Fairways & Bluewater, Boracay | None |
| Villa Michaela[4] | Fairways & Bluewater, Boracay | None |
| Villa Lucia[5] | Fairways & Bluewater, Boracay | None |
| Villa Catalina[6] | Fairways & Bluewater, Boracay | None |

[1] Launched March 2014
[2] Use for hotel operation
[3] Use for hotel operation
[4] Use for hotel operation
[5] Use for hotel operation
[6] Use for hotel operation

| | | |
|---|---|---|
| Villa Vittoria[7] | Fairways & Bluewater, Boracay | None |
| Domaine Le Jardin | Laurel, Batangas | None |

## ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to certain lawsuits or claims arising from the ordinary course of business. The management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements, and thus, no provision has been made for these contingent liabilities.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

# PART II – OPERATIONAL INFORMATION

## ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDERS' MATTERS

**Market price information**

The common shares of the Company are traded on the Philippine Stock Exchange ("PSE") under the symbol of GERI.

| | **Philippine Stock Exchange** | |
|---|---|---|
| | **Average Closing Price per Share (₱)** | |
| | **High** | **Low** |
| <u>2014</u> | | |
| <u>First Quarter</u> | 2.12 | 1.22 |
| <u>2013</u> | | |
| First Quarter | 2.32 | 1.89 |
| Second Quarter | 2.76 | 1.70 |
| Third Quarter | 1.87 | 1.30 |
| Fourth Quarter | 1.53 | 1.31 |

[7] Use for hotel operation

| | | |
|---|---|---|
| **2012** | | |
| First Quarter | 2.48 | 1.93 |
| Second Quarter | 2.14 | 1.63 |
| Third Quarter | 2.14 | 1.79 |
| Fourth Quarter | 2.09 | 1.80 |
| | | |

The market capitalization of GERI as of 31 December2013 based on the closing price at Php1.35 per share of GERI's shares at that date, was approximately Php14.83billion.

*Stockholders*

GERI has a total of about 4,413 common shareholders as of December 31, 2013

**TOP 20 STOCKHOLDERS AS OF DECEMBER 31, 2013**

| No. | STOCKHOLDER | NO. OF SHARES | % OF OWNERSHIP |
|---|---|---|---|
| 1 | ALLIANCE GLOBAL GROUP, INC. | 5,405,000,000 | 49.199% |
| 2 | MEGAWORLD CORPORATION | 2,711,722,000[8] | 24.683% |
| 3 | PCD NOMINEE CORPORATION (FILIPINO) | 1,140,966,994[9] | 10.386% |
| 4 | FIL-ESTATE MANAGEMENT INC. | 1,080,070,946[10] | 9.831% |
| 5 | PCD NOMINEE CORPORATION (FOREIGN) | 534,765,049 | 4.868% |
| 6 | CAP PENSION TRUST FUND | 9,263,280 | 0.084% |
| 7 | GREENFIELD DEVELOPMENT CORPORATION | 8,640,000 | 0.079% |
| 8 | JOHN T. LAO | 7,035,100 | 0.064% |
| 9 | LUCIO W. YAN | 5,755,000 | 0.052% |
| 10 | ROMEO G. ROXAS | 3,716,000 | 0.034% |
| 11 | AVESCO MARKETING | 3,512,106 | 0.032% |

[8] Based on SEC Form 23-B (Statement of Beneficial Ownership) for the month of December 2013 submitted by Megaworld Corporation.

[9] Excluding shares owned by Megaworld Corporation (211,722,000 shares) and Fil-Estate Management, Inc. (215,660,000 shares) lodged with PCD Nominee Corporation.

[10] Based on FEMI's Certification letter dated 21 January 2014, FEMI owns 1,080,070,946 shares as of 31 December 2013, of which 215,660,000 shares are lodged with PCD Nominee Corporation.

| | | | |
|---|---|---|---|
| 12 | RBL FISHING CORPORATION | 2,924,998 | 0.027% |
| 13 | WILBUR CHAN | 2,611,825 | 0.024% |
| 14 | JENNIFER C. LEE OR JOSEPHINE C. LIM | 2,000,000 | 0.018% |
| 15 | GILMORE PROPERTY MARKETING ASSOCIATES, INC. | 1,983,000 | 0.018% |
| 16 | FEDERAL HOMES, INC. | 1,939,860 | 0.018% |
| 17 | PHILIPPINE VETERANS BANK FAO COMPREHENSIVE ANNUITY PLANS AND PENSION CORP. TA#0245 | 1,837,428 | 0.018% |
| 18 | FRITZ L. DY | 1,813,500 | 0.017% |
| 19 | DYNALAND PROPERTIES & DEVELOPERS, INC. | 1,700,001 | 0.015% |
| 20 | ROBERT JOHN L. SOBREPENA | 1,617,485 | 0.015% |
| | | | |
| | **TOTAL** | **10,928,874,572** | **99.482%** |

**Dividends**

Payment of dividends, either in the form of cash or stock, will depend upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends only out of its unrestricted retained earnings. These represent the net accumulated earnings of the Company with its capital unimpaired, which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in cash are subject to the approval by the Board of Directors. Dividends paid in the form of additional shares are subject to approval by both the Board of Directors and at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose.

The Corporation Code prohibits stock corporations from retaining surplus profits in excess of 100% of their paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the Board of Directors, or when the corporation is prohibited under any loan agreement with any financial institution or creditor from declaring dividends without its consent, and such consent has not yet been secured, or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation.

The retained earnings account as of December 31, 2013 amounting to Php4.36 billion in December 2013 and Php4.00 billion in December 2012. is restricted from being declared as dividends to the extent of the undistributed net earnings of subsidiaries and associates. No declaration of cash dividends was made in the last three (3) years.

**Recent Sales of Unregistered or Exempt Securities (including recent issuance of securities constituting an exempt transaction)**

- On August 28,2010, the Company's stockholders approved the increase in the Company's authorized capital stock from P5 billion to P10 billion. The Company's application for increase in authorized capital stock was approved by the SEC on January 20, 2011. Thereafter, the Company issued 5.0 billion fully-paid shares to AGI representing sixty-percent (60%) of the outstanding capital stock of the Company.

  The issuance to AGI is an exempt transaction under Sec. 10.1 (i). Nonetheless, the Company filed on December 5, 2011 a Notice of Exempt Transaction in connection with the issuance of shares to AGI, citing Sec. 10.1 (i) of SEC.

- On September 2011, Lim Asia Multi-Strategy Fund, Inc. (LAMSFI) a holder of the Company's warrants, converted six million (6,000,000) warrants into six million (6,000,000) common shares of the Company at an exercise price of P1.00 per share.

  On 18 May 2012, LAMSFI converted another sixty-two million (62,000,000) warrants into sixty-two million (62,000,000) common shares of the Company at an exercise price of P1.00 per share.

  On July 30, 2012, Lim Asia Alternative Real Estate Fund SPC (LAAREF), also a holder of GERI warrants, converted sixty-eight million (68,000,000) warrants into sixty-eight million (68,000,000) common shares of the Company at an exercise price of P1.00 per share.

  The LAMSFI and LAAREF warrants comprise the one hundred thirty-six million (136,000,000) warrants that were issued by the Company for which an exemptive relief was sought. The Commission issued a Resolution dated February 16, 2007 confirming that issuance of the one hundred thirty-six (136) million warrants is exempt from registration requirements of the Securities Regulation Code.

- On 23 September 2011, the Board of Directors of Company approved the increase in authorized capital stock of the Company from Ten Billion Pesos (Php10,000,000,000.00) divided into Ten Billion (10,000,000,000) common shares with a par value of One Peso (Php1.00) each to Twenty Billion Pesos (Php20,000,000,000.00) divided into Twenty Billion (20,000,000,000) common shares with a par value of One Peso (Php1.00) each. The shareholders ratified the increase on 8 November 2011.

  On 21 June 2013, the Board of Directors of the Company approved the subscription by Megaworld Corporation to Two Billion Five Hundred Million (2,500,000,000) shares of the increase in capital stock of the Company, at the price of Two Pesos and Twenty Six (Php2.26) per share for an aggregate subscription price of Five Billion Six Hundred Fifty Million Pesos (Php5,650,000,000.00).

The Company issued 2.5 billion fully-paid shares to Megaworld Corporation representing twenty-two and 756/100 percent (22.756%) of the outstanding capital stock of the Company.

The issuance to Megaworld Corporation is an exempt transaction under Sec. 10.1 (i). Nonetheless, the Company filed on 3 July 2013 a Notice of Exempt Transaction in connection with the issuance of shares to Megaworld Corporation, citing Sec. 10.1 (i) of SEC.

- On 23 September 2011, the Board of Directors of the Company approved an Executive Stock Option Plan which was ratified on 8 November 2011 by stockholders representing at least 2/3 of the outstanding capital stock of the Company.

  Pursuant to the ESOP, on February 16, 2012, the Company granted the option to its key company directors and executives to subscribe to 100 million shares of the Company, at an exercise price of Php1.93 (1st Tranche). On the basis of the sale to less than twenty persons, A Notice of Exempt Transaction (SEC Form 10.1) was filed with the SEC on March 21, 2012.

  On 18 February 2013, the Company granted another option to key company executives to subscribe to an additional 100 million common shares of the Company at an exercise price of Php1.69 ($2^{nd}$ tranche). On the basis of the sale to less than twenty persons, A Notice of Exempt Transaction (SEC Form 10.1) was filed with the SEC on 21 March 2013.

No underwriters were involved in the sales of the above unregistered or exempt securities.

## PART III - FINANCIAL INFORMATION

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

**Key Performance Indicators**

### LEVERAGE OR LONG-RANGE SOLVENCY RATIOS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Debt to Total Assets | 24% | 28% |
| Equity to Total Assets | 76% | 72% |
| Debt to Equity | 31% | 40% |

*Debt to Total Assets*
It shows the creditors' contribution to the total resources of the organization.

*Equity to Total Assets*
It shows the extent of owners' contribution to the total resources of the organization.

*Debt to Equity*
It relates the exposure of the creditors to that of the owners.

## ACTIVITY RATIOS

| | **December 31, 2013** | **December 31, 2012** |
|---|---|---|
| Assets Turnover | 3% | 3% |
| Return on Equity | 1.6% | 2.1% |

*Assets Turnover*
It measures the level of capital investment relative to sales volume.

*Return on Equity*
It tests the productivity of the owners' investments.

## PROFITABILITY RATIOS

| | **December 31, 2013** | **December 31, 2012** |
|---|---|---|
| Earnings per Share | ₱ 0.034 | ₱ 0.035 |

*Earnings per Share (EPS)*
It indicates the earnings for each of the common shares held.

**Others**

As of the year ended December 31, 2013, there are no material events and uncertainties known to management that would have an impact on the future operations such as:

a. Known trends, demands, commitments, events or uncertainties that would have an impact on the Company;
b. Material commitments for capital expenditures, the general purpose of such commitment and the expected sources of funds for such expenditures;
c. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the net sales/revenues/income from continuing operations;

d. Significant elements of income or loss that did not arise from the Company's continuing operations;
e. Causes for any material changes from period to period in one or more line item of the Company's financial operations;
f. Seasonal aspects that had a material effect on the financial condition or results of the operations;

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

**Management's Discussion and Analysis of Results of Operations and Financial Conditions**

On January 15, 2011, the Company's Board of Directors (BOD) approved the change in accounting period of the Company from fiscal year ending September 30 to calendar year ending December 31. The change in accounting period was approved by the Securities and Exchange Commission (SEC) on March 29, 2011.

In line with the change in accounting period approved by SEC on March 29, 2011, SEC required the Group to file short period return, October to December, for the year 2011.

**Review for the year ended December 31, 2013**

**Results of Operations**

For the year ended December 31, 2013 the Group consolidated net income amounted to Php340.9million.

Consolidated total revenues amounted to Php1.76 billion. The bulk of revenues came from real estate sales, realized profit on prior years' sales, hotel operations, rental and finance and other income. Real estate sales came from the sale of residential subdivision lots and townhouse amounting to Php906 million. The Group's registered sales came from sale of lots in Newcoast Shophouse District, Boutique Hotel and The Village in Malay, Aklan, Sta. Barbara Heights in Iloilo City, Twin Lakes Domaine Le Jardin in Laurel, Batangas and Cathedral Heights in Quezon City.

Total cost and expenses amounted to Php1.31 billion, mainly from cost of real estate sales, cost of services, cost of hotel operations and operating expenses resulting from aggressive marketing activities as well as other administrative and corporate overhead.

**Financial Condition**

The Group's financial position remained stable. Total Assets of Php31 billion as of December 31, 2013 compared to Php24.6 billion as of December 31, 2012 posted an increase of Php6.4 billion or 26% mainly due to subscription of Megaworld from the increase in authorized capital stock.

Cash and cash equivalents increased by 859% from Php0.47 billion in December 2012 to Php4.47 billion as of December 31, 2013 due to Subscription of Megaworld Corporation from the increase in authorized capital stock. Trade and other receivables increased by 32% mainly due to real estate sale of new projects. Other current and non-current assets increased by 8% mainly due to input tax and prepaid tax paid during the period. Real estate and resorts shares for sale increased by 18%, from Php7.8 billion as of December 31, 2012 to Php9.2 billion as of December 31, 2013, mainly due to additional construction costs attributable to on-going projects. Property Development Cost increased by 17% due to development of new projects. Investment properties decreased by 24% due to reclassification of accounts to Property and equipment. Property and equipment increased by 42% due to additional buildings used for hotel operations.

Customer's deposit increased from Php0.67 billion in December 31, 2012 to Php1.5 billion as of December 31, 2013, the 119% increase is due to increase in reservation sales for the year. Advances from related parties decreased by 51% due to payments made to related parties. Reserve for property development increased by 7% due to increase in accrual of development cost for the year. Deferred Income on real estate sales increased by 5% due to deferred gross profit from sales recognized for the year. Due to joint venture partners increased by 9% due to share of JV partner on proceeds of sale. Deferred Tax Liability also increased from Php133.5 million in December 2012 to Php200.8 million in December 2013. The 50% increase is due to increase in taxable temporary difference. Retirement benefit obligation increased by 17% from Php 35.3 million in December 2012 to Php 41.5 million in December 2013 due to additional accrual of retirement obligation. Other non-current liabilities increased from Php 60.5 million to Php63.9 million due to accrual of interest on preferred shares.

Shareholders' Equity increased by 34% from Php17.6 billion to Php23.6 billion mainly due to subscription of Megaworld Corporation from the increase in authorized capital stock and net income recognized for the period.

**Material Changes in the year December 2013 Financial Statements**
***(Increase/decrease of 5% or more versus December 31, 2012)***
**Financial Position**

- 859% increase in Cash and cash equivalents due to Subscription of Megaworld Corporation from increase in authorized capital stock
- 32% increase in Trade and other receivable mainly due to increase in real estate sale
- 18% increase in Real estate and resort shares for sale due to additional construction costs attributable to on-going projects
- 8% increase in Other current and non-current assets mainly due to input tax and prepaid tax paid during the period.
- 17% increase in Property Development cost due to development cost of new projects

- 24% decrease in Investment Property mainly due reclassification of accounts to Property, Plant and Equipment.
- 42% increase in Property and equipment due to additional buildings used for hotel operations
- 119% increase in Customers' deposits due to increase in reservation sales
- 51% decrease in Advances from Related Party due to payments made to related parties
- 7% increase in Reserve for property development due to additional accrual of development cost
- 5% increase in Deferred income on real estate sales due to deferred gross profit from real estate sales recognized for the year
- 9% increase in Due to joint venture due to share of JV partner on proceeds of sales
- 50% increase in Deferred tax liabilities due to increase in temporary tax difference
- 17% increase in Retirement benefit obligation due to accrual of retirement benefit
- 6% increase in Other non-current liability mainly due to accrual of interest on preferred shares
- 34% increase in equity mainly due to subscription of Megaworld Corporation from the increase in Authorized capital stock

**Results of Operations**

- 32% increase in Sale of Real Estate Sales due to aggressive marketing and sales generated from new projects.
- 38% decrease in Realized gross profit on prior years' real estate sales due to majority of the deferred income from old projects were realized in 2012.
- 152% increase in Hotel Operations due to expansion of hotel operations and aggressive marketing.
- 434% increase in Maintenance income due to increase in income from golf course maintenance
- 19% decrease in finance and other income due to decrease in other income
- 39% increase in Cost of Real Estate Sales due to increase in real estate sales
- 27% decrease in Deferred Gross Profit on Real Estate Sales due to increase in % of completion of various projects
- 236% increase in Cost of Hotel Operations mainly due to increase in hotel revenue.
- 235% increase in Cost of Services mainly due to increase in maintenance income.
- 12% increase in Operating expenses mainly due to increase in marketing and other administrative expenses.
- 88% decrease in Equity share in net losses of associates due to lower net loss of associates recognized for the year.
- 107% Increase in Income Tax expense due to increase in taxable income

**Review for the year ended December 31, 2012.**

**Results of Operations**

For the year ended December 31, 2012 the Group consolidated net income amounted to Php264.4million.

Consolidated total revenues amounted to Php1.39 billion. The bulk of revenues came from real estate sales, realized profit on prior years' sales, hotel operations, rental and finance and other income. Real estate sales came from the sale of residential subdivision lots amounting to Php684.9 million. The Group's registered sales came from sale of lots in Newcoast Shophouse District and Boutique Hotel in Malay, Aklan, Sta. Barbara Heights in Iloilo City, and Twin Lakes Domaine Le Jardin in Laurel, Batangas.

Total cost and expenses amounted to Php1.07 billion, mainly from cost of real estate sales and operating expenses resulting from aggressive marketing activities as well as other administrative and corporate overhead.

**Financial Condition**

The Group's financial position remained stable. Total Assets of Php24.6 billion as of December 31, 2012 compared to Php21.0 billion as of December 31, 2011 posted an increase of Php3.6 billion or 17%.

Cash and cash equivalents decreased by 53% from Php993 million in December 2011 to Php466 million as of December 31, 2012 as result of project development. Trade and other receivables increased by 16% mainly due to real estate sale of new projects. Other current and non-current assets increased by 50% due to input tax. Land for future development increased by 51%, mainly due to land acquisition and land investment of stockholders in Twin Lakes Corporation. Real estate and resorts shares for sale increased by 8%, from Php7.2 billion as of December 31, 2011 to Php7.8 billion as of December 31, 2012, mainly due to development of various projects. Investment properties increased by Php27.8 million due to project development. Property and equipment increased by Php163.6 million due to construction of additional buildings used for hotel operations.

Trade and other payables increased by 23% mainly due to payable to contractors and suppliers. Reserve for property development decreased by 14% due to increase in development of various projects. Advances from related parties increased by 46% due to additional advances. Redeemable preferred shares increased by 100% due to redeemable preferred shares issued to stockholders of Twin Lakes Corporation. Customer's deposit increased by 7% due to increase in reservation sales for the period. Deferred tax liability increased by 58% due to increase in taxable temporary difference. Retirement benefit obligation decreased by 20% due to decrease on accrual of retirement benefit. Other non-current liability decreased by 18% due to settlement of other liability.

Shareholders' Equity increased by 11% from Php15.9 billion to Php17.6 billion mainly due to increase in minority equity in Twin Lakes Corporation.

**Material Changes in the year December 2012 Financial Statements**
***(Increase/decrease of 5% or more versus December 31, 2011)***
**Financial Position**

- Cash and cash equivalents decreased by Php526.9 million (53%) to Php466.0 million from the end of December 2011 level of Php993 million as a result of project development.
- 16% increase in Trade and other receivable mainly due to increase in real estate sale
- 8% increase in Real estate for sale due to increase in project development
- 15% increase in Advances to related party mainly due to additional advances
- 50% increase on other current and non-current assets mainly due to input tax
- 51% increase in Land for future development due to land acquisition and land investment in one of the subsidiaries
- 8% increase in Investment Property mainly due to project development
- 33% increase in Property and equipment due to construction of additional buildings used for hotel operations
- 46% increase in Advances from Related Party due to additional advances
- 23% increase in Trade Payables mainly due to increase in payable to contractors and suppliers
- 7% increase in Customers' deposits due to increase in reservation sales for the period
- 14% decrease in Reserve for property development due to increase in development of various projects
- 100% increase in Redeemable preferred shares due to redeemable preferred shares issued to stockholders of Twin Lakes Corporation.
- 58% increase in Deferred tax liabilities due to increase in temporary tax difference
- 20% decrease in Retirement benefit obligation due to decrease in accrual of retirement benefit
- 18% decrease in Other non-current liability mainly due to settlement of other liability
- 11% increase in equity mainly due to increase in investment in Twin Lakes Corporation

## <u>Review of the short period covering the three months ended December 31, 2011</u>

### Results of Operations

For the three months ended December 31, 2011 the Group consolidated net income amounted to Php33.3 million. Consolidated total revenues composed of real estate sales, rental income, and other income amounted to Php252.4 million.

Total cost and expenses amounted to Php205.6 million, mainly from operating expenses resulting from aggressive marketing activities as well as other administrative and corporate overhead.

The bulk of consolidated revenues came from real estate sales and finance and other income.

Real estate sales came from the sale of horizontal residential subdivision lots and condominium units amounting to Php167.1 million. The Group's registered sales came from sale of horizontal residential subdivision lots in Riverina in San Pablo Laguna, Sta. Barbara Heights in Ilo-Ilo City and Newcoast Boracay.

**<u>Review for the year ended December 31, 2011</u>**

**Results of Operations**

For the year ended December 31, 2011 the Group consolidated net income amounted to Php220.1 million. Consolidated total revenues composed of real estate sales, rental income, maintenance income and other income amounted to Php1.05 billion.

Total cost and expenses amounted to Php783 million, mainly from operating expenses resulting from aggressive marketing activities as well as other administrative and corporate overhead and from cost of real estate sales.
The bulk of consolidated revenues came from real estate sales and finance and other income.

Real estate sales came from the sale of horizontal residential subdivision lots and condominium units amounting to Php470.7 million. The Group's registered sales came from sale of condominium units in Eight Sto Domingo Place in Quezon City, residential lots in Magnificat Exec. Village in Lipa Batangas, Riverina in San Pablo Laguna, Monte Cielo De Naga in Naga City, Sta. Barbara Heights in Ilo-Ilo City, Boracay Newcoast in Malay Aklan, sale of commercial lots in Carmona Cavite and sale of business park lots in Biñan, Laguna.

**<u>As of December 31, 2011</u>**

**Financial Condition**
The Group's financial position remained stable. Total assets as of December 31, 2011 Php21.0 billion compared to Php18.6 billion as of September 30, 2011 posted an increase of Php2.4 billion or 13%.

Cash and cash equivalents decreased by 44.36% from Php1.78 billion in September 2011 to Php993 million as of December 31, 2011 as a result of land acquisition and project development. Land for future development increased by 92% mainly due to land investment of stockholder's of Twin Lakes Corporation. Real estate and resorts share for sale increased by 5% from Php6.9 billion as of September 30, 2011 to Php7.2 billion as of December 31, 2011 mainly due to development of various project. Investment property increased by Php126.0 million due to project development. Other current and non-current asset increased by 46% due to input tax.

Shareholders' equity increased by 15% from Php13.8 billion to Php15.9 billion

**Material Changes in the year December 2011 Financial Statements**
***(Increase/decrease of 5% or more versus September 30, 2011)***
**Financial Position**

- Cash and cash equivalents decreased by Php791.6 million (44%) to Php993 million from the end of September 2011 level of Php1.78 billion as a result of land acquisition and project development.
- 5% Increase in Real Estate for Sales due to additional project development
- 9% Increase in Advances to Related parties mainly due to reclassification of accounts.
- 46% Increase in Other Current and non-current asset mainly due to pre-payments
- 92% Increase in Land for future development due to land investment to one of the subsidiary.
- 61% Increase in Investment property mainly due to project development.
- 111% Increase in Advances from related party due to additional advances
- 11% Decrease in Trade payables mainly due to payment and reclassification of account
- 19% Increase in Reserve for property development cost due to reclassification of account
- 15% Increase in Equity due to investment to Twin Lakes Corporation

**Review of 2011 versus 2010 (for the year ended September)**

**Results of Operations**

During the year 2011 the Group consolidated net income amounted to Php19.4 million, a significant improvement from the previous year net loss of Php153.3 million. Consolidated total revenues composed of real estate sales, rental income, service income and other income increased by 12% from Php776.3 million to Php867.5 million.

Cost and expenses decreased by 16% from Php957.1 million in 2010 to Php802.5 million in 2011, mainly due to decrease in finance cost and operating expenses.

The bulk of consolidated revenues came from real estate sales and finance and other income.

Real estate sale came from the sale of horizontal residential subdivision lots and condominium units amounting to Php326.0 million in 2011 compared to Php381.8 million in 2010, a slight decrease of 15%. The Group's registered sales came from sale of condominium units in Eight Sto Domingo Place in Quezon City, residential lots in Magnificat Exec. Village in Lipa Batangas, Riverina in San Pablo Laguna, Monte Cielo De Naga in Naga City, Sta. Barbara Heights in Ilo-Ilo City and sale of commercial lots in Carmona Cavite.

**Financial Condition**
The Group's stable financial position has improved further with the Php5.0 billion subscription by Alliance Global Group, Inc. (AGI) Total assets as of September 30, 2011 Php18.6 billion compared to Php15.3 billion as of September 30, 2010 posted an increase of Php3.3 billion or 22%.

Cash and cash equivalents increased by 2,078% to Php1.78 billion as a result of the subscription received from AGI. Trade and other receivables increased by 7% mainly due to revenue recognized for the period. Land for future development increased by 50% due to additional land acquisition for the period. Bank loan and bonds payable were fully paid during the period.

Shareholders' equity increased by 62% from Php8.5 billion to Php13.8 billion

**Material Changes in the year 2011 Financial Statements**
***(Increase/decrease of 5% or more versus September 30, 2010)***

**Financial Position**

- Cash and cash equivalents increased by Php1.80 billion (2,078%) to Php1.78 billion from the end of September 2010 level of Php81.96 million as a result of the subscriptions received from Alliance Global Group Inc.(AGI).
- 7% Increase in Trade and other receivables mainly due to revenue recognized for the period.
- 10% Increase in Real Estate for Sales due to additional project development
- 41% Decrease in Advances to Related parties mainly due to collection and proper classification of accounts.
- 9% Decrease in Other Current and non-current asset mainly due to pre-payments
- 17% Increase in Property development cost as a result of project development
- 50% Increase in Land for future development due to additional land acquisition during the period.
- 19% Decrease in Investment property mainly due to reclassification of account.
- 37% Increase in Property Plant and Equipment due to reclassification of account and additional property acquisition for the period.
- 8% Increase in Customers' deposit as a result of new project launched during the year.
- 7% Increase in Reserve for Property Development Cost due to additional accrual.
- 6% Increase in Deferred Income in relation to sales recognized during the period.
- 60% Decrease in Advances from related party due to payment and reclassification of account.
- Loans payable and Bonds payable were fully paid during the period.
- 14% Decrease in Deferred tax liability pertains to tax effects of taxable deductible temporary difference.

**Results of Operations**

- 15% Decrease in Sale of Real Estate Sales due to lower sales recognized for the period.

- 100% Increase in Income from assignment of development rights due to agreements with related parties.
- 888% Increase in Realized Gross Profit in prior year sale mainly due to revenue recognition in prior year sales.
- 14% Increase in Rental Income due to escalation and additional tenant for the period.
- 17% Decrease in Finance and other income mainly due to previous year recognition of forex gain.
- 10% Increase in Cost of Sales due to costs adjustment during the period
- 52% Increase in Cost of Services mainly due to increase in prices of materials for the maintenance of golf course.
- 153% Increase in Deferred Gross profit in relation to uncompleted portion of sales recognized during the period.
- 50% Decrease in Finance Cost mainly due to full settlement of loans and bonds payable

## ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2013, December 31, 2012 and the short period three months ended October to December 2011 of the Company are incorporated herein duly signed by the external auditors.

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

In compliance with SEC Memorandum Circular No. 8, Series of 2003, and the Company's Manual of Corporate Governance, which require that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier, the Company's Board of Directors approved, on June 30, 2011, the designation of Punongbayan and Araullo as new external auditor for the audit of the financial statements of the Company starting the year ending 30 September 2011. The handling partner then designated was Mr. Leonardo D. Cuaresma Jr. who is one of the Audit and Assurance partners of Punongbayan and Araullo.

For the year 2012 and 2013, the partner designated is Mr. Nelson J. Dinio who is one of the Audit and Assurance partners of Punongbayan and Araullo.

There are no disagreements with the auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their reports on the financial statements of the Company at its subsidiaries.

**Information on Independent Accountant and Other Related Matters**

For the audit of the registrant's financial statements and services that are normally provided by the external auditors in connection with statutory and regulatory filings for the calendar year report of 2013, 2012 and 2011, fee was approximately Php0.925 million, Php0.85 million and Php0.75 million respectively.

No other assurance and related services have been rendered by the external auditors to the registrant other than the items discussed above.

## PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDER

### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

The table sets forth each member of the Company's Board:

| Name | Age | Citizenship | Position |
|---|---|---|---|
| Andrew L. Tan | 63 | Filipino | Chairman & CEO |
| Robert John L. Sobrepeña | 57 | Filipino | Co-Chairman |
| Ferdinand T. Santos | 62 | Filipino | President |
| Wilbur L. Chan | 53 | Filipino | Executive Director |
| Miguel B. Varela | 73 | Filipino | Independent Director |
| Garry V. de Guzman | 45 | Filipino | Director |
| Gerardo C. Garcia | 71 | Filipino | Independent Director |
| Lourdes T. Gutierrez | 49 | Filipino | Director |
| Robert Edwin C. Lim | 55 | Filipino | Director |

The table below sets forth GERI's executive officers in addition to its executive directors listed above:

| Name | Age | Citizenship | Position |
|---|---|---|---|
| Roberto S. Roco[11] | 60 | Filipino | Chief Finance Officer |
| Lailani V. Villanueva[12] | 34 | Filipino | Chief Finance Officer and Compliance Officer |
| Marie Emelyn Gertrudes C. Martinez | 48 | Filipino | SVP for Legal |
| Jennifer L. Romualdez | 43 | Filipino | VP for Contracts, Procurement, and Project Management |
| Karen B. Maderazo[13] | | Filipino | VP for Human Resources |

[11] Mr. Roberto S. Roco's term as CFO ended on July 30, 2013.
[12] Ms. Lailani V. Villanueva was elected as the CFO and Compliance Officer on 30 July 2013.

| | | | |
|---|---|---|---|
| Catherine D. Marcelo | 38 | Filipino | VP for Corporate Services |
| Abraham M. Mercado[14] | 35 | Filipino | VP for Marketing |
| Atty. Dominic Isberto | 37 | Filipino | Corporate Secretary |
| Rolando D. Siatela | 51 | Filipino | Asst. Corporate Secretary |

**Board of Directors**

**ANDREW L. TAN,** Filipino, 63 years old, was elected as Chairman of the Board and Chief Executive Officer of the Company on 12 January 2011. He is also the Chairman of the Board of Alliance Global Group, Inc. since 2006 and of Emperador Inc. since August 28, 2013. He has broad experience in the real estate, food and beverage, and quick service restaurants industries. Dr. Tan is concurrently the Chairman of the Board and President of Megaworld Corporation, Megaworld Land, Inc., Megaworld Globus Asia, Inc., Megaworld Newport Property Holdings, Inc., Mactan Oceanview Properties and Holdings, Inc., Richmonde Hotel Group International Limited, The Bar Beverage, Inc. and Yorkshire Holdings, Inc. He is also the Chairman of Alliance Global Group Cayman Islands, Inc., Empire East Land Holdings, Inc., Alliance Global Brands, Inc., Suntrust Properties, Inc., Adams Properties, Inc., Consolidated Distillers of the Far East, Inc., and Townsquare Development, Inc.. He sits in the boards of Megaworld Cayman Islands, Inc., Forbes Town Properties & Holdings, Inc., Gilmore Property Marketing Associates, Inc., Eastwood Cyber One Corporation, Megaworld Central Properties, Inc., Raffles & Company, Inc., Travellers International Hotel Group, Inc., The Andresons Group, Inc., Fairways & Bluewater Resort Golf & Country Club, Inc. and Twin Lakes Corporation.He is also the Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation and a Director and Treasurer of Andresons Global, Inc. Dr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

**ROBERT JOHN L. SOBREPEÑA,** Filipino, 58 years old, is Co-Chairman of the Board. Currently, he is also the Chairman of the Board of various companies such as Fil-Estate Management Inc., Fil-Estate Corporation, Fil-Estate Properties Inc., Fil-Estate Ecocentrum Corp., Fil-Estate Golf & Development Inc., Fil-Estate Urban & Development Corporation, Fil-Estate Realty Corporation, Camp John Hay Development Corporation, Camp John Hay Hotel, Inc., Sherwood Hills Development, Inc., Club Leisure Management, Inc., Manila Southwoods Golf & Country Club, Sherwood Hills Golf & Country Club, Camp John Hay Golf Club, Summit Estate Realty & Development Corporation, Pacific Touch Group Ltd., Metro Rail Transit Holdings, Inc., Metro Rail Transit Holdings II, Inc., Metro Rail Transit Corporation, MRT Development Corporation, and Monumento Rail Transit Corporation. A member of the American Chamber of Commerce and the Rotary Club of Manila, he earned his Bachelor's Degree in Psychology and Marketing from the De La Salle University in 1978.

**WILBUR L. CHAN,** Filipino, 53 years old, was appointed as Executive Director of the Company on 01 August 2011. He is currently the Chairman and Director of Fairways &

[13] Ms. Karen B. Maderazo was appointed VP for Human Resources on 1 October 2013.
[14] Mr. Abraham Mercado resigned last September 26, 2013.

Bluewater Resorts Golf & Country Club, Inc. He is also Director in the following corporations: Harbortown Development Corporation, La Compaña de Sta. Barbara, Inc., Sto. Domingo Place Development Corporation, Fil-Estate Urban Development Corporation, Blue Sky Airways, Inc., Fil-Estate Ecocentrum Corporation, and MRT Development Corporation. He is also a Director in Uni-Asia Properties,Inc. He has a Masteral Degree in Business Management at Asian Institute of Management, Master Degree in National Security Administration (Silver Medalist) at National Defense College of the Philippines and a Degree in Command & General Staff Course at Command & General Staff College.

**MIGUEL B. VARELA**, Filipino, 73 years old, was elected as Independent Director on 28 September 2012. He has been a member of the Board of Directors of Megaworld Corporation since June 2006. He was also elected as Independent Director of Emperador Inc. since August 28, 2013. He is presently the President of the Philippine Chamber of Commerce and Industry (PCCI) was formerly President and now presently Director of Manila Bulletin Publishing Corporation, Director of Ausphil Tollways Corporation, Director, NPC Alliance Corporation, Vice Chairman Richmonde Hotel, among others. Chairman of the Employers Confederation of the Philippines (ECOP), Board of Trustee of Philippines Trade Foundation, Inc. Chairman of Pribadong Institusyon Laban sa Kahirapan (PILAK). Chairman of the Philippine Association of Voluntary Arbitration Foundation (PAVAF), and Vice Chairman of Philippine Dispute Resolution Center, Inc. (PDRCI). He is also the Vice President of the International Labor Organization, Inc., and Vice Chairman and Trustee, Foundation for Crime Prevention. He is an accredited international arbitrator of the Paris-based International Court of Arbitration. A member of the Philippine Bar, he pursued his Bachelor of Laws in the Ateneo de Manila Law School and his Associate in Liberal Arts from the San Beda College. He attended a Top Management and Productivity Program from the Asian Institute of Management (AIM) as well as special courses sponsored by ILO, Geneva, Switzerland, Asian Productivity Organization (APO), and the Nikkeren, Japan, covering areas of Managerial Management and Organizational Development, Productivity, Legal Management, Labor and Industrial Relations, Development of SME's among others. He is a member of the Philippine Bar Association, a Commissioner of the Consultative Commission on Constitutional Reform and a Lifetime Member of the Philippine Constitution Association (PHILCONSA). He is the recipient of various awards and citations such as San Beda College's Outstanding Alumni Award for Business Leadership, and San Beda Hall of Fame Awardee. Presidential Medal of Merit for Outstanding Service to the Republic of the Philippines, Tamaraw Leadership Award, Katipunan Leadership Award and Leadership Award from ECOP, PCCI and ASEAN Productivity Organization and Confederation of Asia-Pacific Chamber of Commerce and Industry (CACCI) Medallion for Distinguished Service Award. He was also conferred by the Central Luzon State University with the degree of Doctor of Humanities (honoris causa), and by the Eulogio "Amang" Rodriguez University of Science and Technology with a Doctorate in Business Technology (*honoris causa*).

**GARRY V. DE GUZMAN,** 45 years old, was elected as Director of the Company on 12 January 2011 and currently the Treasurer of the Company. He heads the Legal Affairs Department of Megaworld Corporation. Mr. De Guzman serves as director ERA Real Estate Exchange, Inc., Megaworld Resort Estates, Inc. and Oceanic Realty International Group, Inc. He is concurrently Director, Corporate Secretary and Treasurer of Fairways & Bluewater Resort Golf & Country Club, Inc. and Corporate Secretary & Director of Megaworld Global-Estate, Inc. Mr. De Guzman has been in continuous litigation practice for more than twelve (12) years and is in charge of the Company's litigation, licensing, registration and titling activities. Before joining Megaworld, he was an Associate at the ACCRA Law Offices and Tax Assistant in Punongbayan and Araullo, CPAs. He obtained his Bachelor of Laws in 1994 from San Beda College where he graduated Class Salutatorian and was admitted to the Integrated Bar of the Philippines in 1995. In 1989, he obtained his bachelor's degree in Commerce major in Accounting from the same institution graduating Magna Cum Laude and Class Valedictorian. Mr. De Guzman is a member of the Commercial Law Affiliates, Asia Law, Philippine Institute of Certified Accountants and is Past President of the Rotary Club, Parañaque City Chapter.

**FERDINAND T. SANTOS,** Filipino, 63 years old, is currently the President of the Company. He has been with the Company since its incorporation in 1994. He is also the President of Fil-Estate Management Inc., Fil-Estate Development Inc., Fil-Estate Properties Inc., Fairways & Bluewater Resort Golf & Country Club, Inc., MRT Development Corporation, St. Benedict Realty & Development Inc., Royal Jade Memorial Inc., and Mt. Zion Memorial Inc. He graduated from Arellano University with Bachelor of Arts degree in 1970 and took his Bachelor of Laws at San Beda College where he graduated Valedictorian and Magna Cum Laude in 1974. He was a topnotcher in the 1974 Philippine Bar (2nd Place).

**LOURDES T. GUTIERREZ,** 49 years old, was elected as Director of the Company on 30 June 2011. She is currently the Chief Operating Officer of Megaworld Corporation. Ms. Gutierrez joined Megaworld in 1990. She is a Certified Public Accountant and is a member of Megaworld's Management Executive Committee. Ms. Gutierrez graduated Cum Laude from the Far Eastern University with the degree of Bachelor of Science major in Accounting. She is the Chairman of Megaworld's property management arm, First Oceanic Property Management, Inc. and Eastwood Cinema 2000, Inc. She is currently the Director and Vice Chairman of Suntrust Properties, Inc. also the director of Forbes Town Properties & Holdings, Inc., Megaworld Resort Estates, Inc., Megaworld Homes, Inc., Oceantown Properties, Inc., Palm Tree Holdings & Development Corporation, Eastwood Cyber One Corporation, Prestige Hotels & Resorts, Inc. and Lucky Chinatown Cinemas, Inc. She is a trustee and Corporate Secretary of Megaworld Foundation, Inc. Prior to joining Megaworld, she was Audit Manager of Philippine Aluminum Wheels, Inc. and Senior Auditor in Cabanero Katigbak Clemente & Associates and RubberWorld Philippines.

**ROBERT EDWIN C. LIM,** Filipino, 55 years old, was elected as Director of the Company on 30 June 2011. He is currently the Vice President for Corporate Planning and Landbanking of Empire East Land Holdings, Inc., a position he has held since 1994. Prior to joining Empire East, he worked with Woodland Real Estate Development, Inc. as Head of Project Planning, Supervision and Control. He also worked as Staff Consultant of PSR Consulting, Inc. He worked as Contracts Administrator and Structural Engineer at the DCCD Engineering Corporation. Mr. Lim obtained his bachelor's degree in Civil Engineering and Masters Degree in Business Administration from the University of the Philippines.

**GERARDO GARCIA,** Filipino, 71 years old, was elected as Independent Director of the Company on 01 August 2011. He concurrently serves as Independent Director in the boards of Megaworld Corporation, Empire East Land Holdings, Inc., He is also a director of Megaworld Land, Inc., Suntrust Properties, Inc. and Philippine Tech. & Development Ventures, Inc. From October 1994 to December 1997, Mr. Garcia previously served as President of Empire East Land Holdings, Inc. Prior to joining Empire East Land Holdings, Inc., Mr. Garcia served as Executive Vice President of UBP Capital Corporation. He holds a bachelor's degree in Chemical Engineering and a Masters Degree in Business Administration from the University of the Philippines.

**Key Executive Officers**

**LAILANI V.VILLANUEVA**, Filipino, 34 years old, is the Chief Finance Officer and Compliance Officer. She is a Certified Public Accountant with over 14 years of experience in accounting and finance. Prior to joining the Company, she was connected with Megaworld Corporation as a Senior Accounting Manager from 2007 until 2010. In 2011, she joined Global-Estate Resorts, Inc. as Comptroller. She is concurrently the Chief Financial Officer of Fairways and Bluewater Resort Golf and Country Club, Inc. Ms. Villanueva graduated from the College of the Immaculate Concepcion with a degree of Bachelor Science in Accountancy.

**MARIE EMELYN GERTRUDES C. MARTINEZ,** Filipino, 48 years old, is the Senior Vice President for Legal. She is also a Director of Fil-Estate Properties, Inc. and the Assistant Corporate Secretary of Fairways and Bluewater Resort Golf and Country Club, Inc. Before joining GERI, she was the Chief of Staff of the Office of COMELEC Commissioner Augusto C. Lagman. She was a Partner in Ponce Enrile Reyes & Manalastas (PECABAR) Law Offices and in Nisce Mamuric Guinto Rivera & Alcantara Law Offices. She was admitted to the Bar in 1991 after obtaining her Bachelor of Laws degree from University of the Philippines and her Bachelor of Arts major in Economics from the same university.

**JENNIFER L. ROMUALDEZ**, Filipino, 43 years old, joined GERI on July 1, 2012 as Vice President for Contracts and Procurement. In September 2012, she was appointed Vice President for Contracts Procurement and Project Management. Previously, she worked for Megaworld Corporation which engaged her in 1995 as Purchasing Supervisor/Coordinator, eventually was promoted to Assistant Purchasing Manager. She became Assistant Vice President for Special Projects/Interior Design Group in 1999, managing and coordinating the design and construction of various projects. She was promoted as Vice President to head the Contracts & Procurement Group of Megaworld and was responsible for all construction-related contracts and materials procurement. Later in her career, she served as Corporate Manager for Quantity Surveying & Tender of Ding Feng Real Estate Development Co., Ltd. in Shanghai, PRC. She was also engaged by Ho Cheng (China) Co. Ltd. (HCG) in Shanghai, PRC, as Assistant Director for Marketing-Interior Design & Graphics, and subsequently as Consultant for the HCG Beijing Flagship Showroom project. She graduated from the University of the Philippines in Diliman, Quezon City with a degree in Bachelor of Science Major in Architecture. She completed and passed the Philippine Licensure Examination for Architects in 1993.

**KAREN B. MADERAZO,** Filipino, 35 years old, is the Vice President for Human Resources. She joined GERI on October 1, 2013. Prior to joining the Company, Ms. Maderazo served as the Senior Manager for Human Resources Division of Megaworld Corporation from May 2005 to September 2013. She also worked for Suyen Corporation from June 2003 to February 2005 as Training Specialist of the Personnel Department. She graduated from Centro Escolar University with a degree in Bachelor of Science in Psychology. She also took up 36 units of Master's degree in Psychology from Centro Escolar University from 2000 to 2003.

**CATHERINE D. MARCELO,** Filipino, 38 years old, is the Vice President for Corporate Services of the company since 2011. Prior to joining the Company, she worked with Lufthansa Technik Philippines, Inc. and ABS-CBN Broadcasting Corporation as Human Resources Head. From May 1996 to July 2001, she has been the Human Resources Division Senior Supervisor and Recruitment Officer, Training and Development Officer, and Overall HR Officer for Fil-Estate Group of Companies. She graduated from University of Santo Tomas with a degree of BS in Psychology in 1996.

**DOMINIC V. ISBERTO,** 37 years old, Filipino, was elected as the Corporate Secretary and Asst. Corporate Information Officer of the Company on 12 January 2011. He is also the Corporate Secretary of Alliance Global Group, Inc., Emperador Inc., Twin Lakes Corporation, Suntrust Properties, Inc. and Eastwood City Estates Association, Inc. He is currently a Senior Assistant Vice President for Corporate Management of Megaworld Corporation, where he is primarily responsible for negotiation, preparation and review of joint venture and sale and purchase agreements for the acquisition of property, lease agreements, loan agreements, and other corporate contracts and agreements and the handling of legal cases. Mr. Isberto has experience in litigation and banking and corporate law. He has a degree in Management Engineering from the Ateneo de Manila University and obtained his Bachelor of Laws degree from the University of the Philippines.

**ROLANDO D. SIATELA**, 51 years old, Filipino was elected as Assistant Corporate Secretary of the Company on 12 January 2011. He concurrently serves in PSE-listed companies, Alliance Global Group, Inc. and Megaworld Corporation and Emperador Inc. as Assistant Corporate Secretary, and in Suntrust Home Developers, Inc. as Corporate Secretary and Corporate Information Officer. He is also the Assistant Vice President for Corporate Management of Megaworld Corporation. Prior to joining Megaworld Corporation, he was employed as Administrative and Personnel Officer with Batarasa Consolidated, Inc. and served as Assistant Corporate Secretary and Chief Administrative Officer of The Andresons Group, Inc. He is a member of the board of Asia Finest Cuisine, Inc., serves as Corporate Secretary of ERA Real Estate Exchange, Inc. and Oceanic Realty Group International, Inc. and as Documentation Officer of Megaworld Foundation

**Significant Employees**

The Corporation considers its entire workforce as significant employees. The Corporation relies on the contribution of all employees to achieve its corporate objectives.

**FAMILY RELATIONSHIPS**

There are no family relationships among directors, executive officers or persons nominated or chosen to become directors or executive officers.

**Involvement in Certain Legal Proceedings (over the past 5 years)**

The Company has no knowledge of any of the following events that occurred during the past five (5) years up to the date of this report which are material to an evaluation of the ability or integrity of any director or executive officer:

a. None of them has been involved in any bankruptcy petition.

b. None of them has been convicted by final judgment in a criminal proceeding or being subject to a pending criminal proceeding both domestic and foreign.

c. None of them has been subject to any order, judgment or decree of any court of competent jurisdiction (domestic or foreign) permanently or temporarily, enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities.

d. None of them has been found by a domestic or foreign court of competent jurisdiction (in a civil action), the commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation.

**ITEM 10. EXECUTIVE COMPENSATION**

**KEY EXECUTIVE OFFICERS**

| NAME | POSITION | YEAR | SALARY | Other Annual Compensation |
|---|---|---|---|---|
| A. Five Most Highly Compensated Officer<br><br>Ferdinand T. Santos | <br><br><br>President | Estimated 2014 | 13.5 Million | 1.34 Million |

| | | | | |
|---|---|---|---|---|
| Emelyn C. Martinez<br>Jennifer L. Romualdcz<br>Catherine M. Marcelo<br>Arnel C. Ordas | Sr.Vice President<br>Vice President<br><br>Vice President<br><br>Head for Litigation | | | |
| B. All other officers and directors as a group unnamed | | | 11.6 Million | 1.07 Million |

| NAME | POSITION | YEAR | SALARY | Other Annual Compensation |
|---|---|---|---|---|
| C. Five Most Highly Compensated Officer | | 2013 | 11.8 Million | 1.21 Million |
| Ferdinand T. Santos<br>Roberto S. Roco<br>Emelyn C. Martincz<br>Jennifer L. Romualdez<br>Catherine M. Marcelo | President<br>SVP & CFO<br>Sr.Vice President<br>Vice President<br><br>Vice President | | | |
| D. All other officers and directors as a group unnamed | | | 11.2 Million | 1.20 Million |

| NAME | POSITION | YEAR | SALARY | Other Annual Compensation |
|---|---|---|---|---|
| E. Five Most Highly Compensated Officer | | 2012 | 11.2 Million | 1.2 Million |
| Ferdinand T. Santos | | | | |

| | | | | |
|---|---|---|---|---|
| Roberto S. Roco<br>Edgardo S. Pinga<br>Abraham M. Mercado<br>Catherine M. Marcelo | President<br>SVP & CFO<br>Vice President<br>Vice President<br><br>Vice President | | | |
| F. All other officers and directors as a group unnamed | | | 7.8 Million | 0.8 Million |

The total annual compensation paid to all senior personnel from AVP and up are all payable in cash. The total annual compensation includes the basic salary and 13th month pay. The Company has no other arrangement with regard to the remuneration of its existing officers aside from the compensation received as herein stated.

## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The Directors receive a per diem per attendance at board meetings.

On September 23, 2011, the Board of Directors of the Company approved an Executive Stock Option Plan and this was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the Plan is to enable the key Company executives, directors and senior officers who are largely responsible for its further growth and development to obtain an ownership interest in the Company, thereby encouraging long-term commitment to the Company. The Plan is being administered by the Executive Compensation Committee of the Board.

Under the Plan, the Company shall initially reserve for exercise of stock options up to 500 million common shares of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within ten (10) years from the adoption of the Plan and may be exercised within seven (7) years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for twelve (12) months immediately preceding the date of grant. The options shall vest within three (3) years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three (3) year period. The Company shall receive cash for the stock options.

Pursuant to this ESOP, on February 16, 2012, the Company granted the option to its key company directors and executives to subscribe to 100 million shares of the Company, at an exercise price of Php1.93 (1st Tranche). On February 18, 2013, the Company granted another stock option to the same set of directors and officers for the same number of shares (100 million shares) at an exercise price of Php1.69 (2nd Tranche).

The PSE approved the Company's application for the listing of 100,000,000 common shares (1st Tranche) and an additional 100,000,000 common shares (2nd Tranche) on May 23, 2012 and January 22, 2014, respectively.

An Option Holder may exercise in whole or in part his vested Option provided, that, an Option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said Option's Life Cycle.

As of 31 December 2013, none of the Option Holders has exercised the options granted to them under the ESOP, and that no underlying shares have been subscribed nor fully-paid for by the Option Holders in connection therewith.

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

**Security Ownership of Certain Record and Beneficial Owners**

Security ownership of certain record and beneficial owners owning more than 5% of any class of the Corporation's voting securities as of 31 December 2013 are as follows:

| Title of Class | Name, address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent (Based in total shares) |
|---|---|---|---|---|---|
| Common shares | Alliance Global Group, Inc. 7th/F 1880 Eastwood Avenue, Eastwood City, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City | Alliance Global Group, Inc | Filipino | 5,405,000,000 | 49.199% |
| Common Shares | Megaworld Corporation | Megaworld Corporation | Filipino | 2,711,722,000[15] | 24.683% |

[15] Based on SEC Form 23-B (Statement of Beneficial Ownership) for the month of December 2013 submitted by Megaworld Corporation.

| | | | | | |
|---|---|---|---|---|---|
| | 28th Floor, The World Center, 330 Senator Gil Puyat Ave., Makati City | | | | |
| Common shares | PCD Nominee Corporation (Filipino) 6/F MKSE Bldg. Ayala Avenue, Makati City | Various shareholders | Filipino | 1,140,966,994[16] | 10.386% |
| Common shares | Fil-Estate Management, Inc. 6/F Renaissance Tower, Meralco Avenue, Pasig City | Fil-Estate Management, Inc. | Filipino | 1,080,070,946[17] | 9.831% |

Other than the persons identified above, there are no other beneficial owners of more than 5% of the Company's outstanding capital stock that are known to the Company.

**Security Ownership of Management**

As of December 31, 2013 common shares owned by all directors and executive officers of GERI, representing original issues and stock dividends are as follows:

| Title of Class | Name of Beneficial Owner | Amount and nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| | | | | |
| Common | Dr. Andrew L. Tan | 1 (direct)<br>5,405,000,000 (indirect)* | Filipino | 0.00%<br>49.199% |

[16] Excluding shares owned by Megaworld Corporation (211,722,000 shares) and Fil-Estate Management, Inc. (215,660,000 shares) lodged with PCD Nominee Corporation.
[17] Based on FEMI's Certification letter dated 21 January 2014, FEMI owns 1,080,070,946 shares as of 31 December 2013, of which 215,660,000 shares are lodged with PCD Nominee Corporation.

| | | | | |
|---|---|---|---|---|
| | | 2,711,722,000 (indirect)** | | 24.683% |
| Common | Robert John L. Sobrepena | 1,617,485 (direct) 1,080,070,946 (indirect)*** | Filipino | 0.013% 9.83% |
| Common | Ferdinand T. Santos | 30,009 (direct) | Filipino | 0.00% |
| Common | Wilbur L. Chan | 2,611,826 (direct) | Filipino | 0.00% |
| Common | Miguel Valera | 511 (direct)**** | Filipino | 0.00% |
| Common | Garry V. de Guzman | 1 (direct) | Filipino | 0.00% |
| Common | Lourdes T. Gutierrez | 1 (direct) | Filipino | 0.00% |
| Common | Robert Edwin C. Lim | 1 (direct) | Filipino | 0.00% |
| Common | Gerardo C. Garcia | 1 (direct) | Filipino | 0.00% |
| **Other Executive Officers** | | | | |
| Common | Roberto S. Roco[18] | 266,448 (direct) | Filipino | 0.00% |
| Common | Lailani V. Villanueva[19] | 0 | Filipino | n/a |
| Common | Marie Emelyn Gertrudes C. Martinez | 0 | Filipino | n/a |
| Common | Jennifer L. Romualdez | 0 | Filipino | n/a |
| Common | Abraham M. Mercado[20] | 0 | Filipino | n/a |
| Common | Karen B. Maderazo[21] | 0 | Filipino | n/a |
| Common | Catherine D. Marcelo | 0 | Filipino | n/a |
| Common | Atty. Dominic V. Isberto | 0 | Filipino | n/a |
| Common | Rolando Siatela | 0 | Filipino | n/a |

*Held by Alliance Global Group, Inc. which authorized Andrew L. Tan, in his capacity as Chairman of the Board, or in his absence the Chairman of the Meeting, to vote AGI's common shares in the Company.
**Held by Megaworld Corporation which authorized Andrew L. Tan, in his capacity as Chairman of the Board, or in his absence the Chairman of the Meeting, to vote MEG's common shares in the Company.
***Held by Fil-Estate Management Inc. which authorized Robert John L. Sobrepena, in his capacity as Chairman of the Board, or in his absence the Chairman of the Meeting, to vote FEMI's common shares in the Company.
****510 shares - held by "MIGUEL B. VARELA &/OR CECILIA M. VARELA"

**<u>Voting Trust Holders of 5% or more</u>**

The Company knows of no persons holding more than 5% of common shares under voting trust or similar agreement.

[18] Term as CFO ended on July 30, 2013.
[19] Elected as CFO and Compliance Officer on 30 July 2013 to replace Roberto S. Roco.
[20] Resigned on 26 September 2013.
[21] Appointed as VP for Human Resources on 1 October 2013.

**Changes in Control**

On 22 December 2010, the Company signed a Subscription Agreement with Alliance Global Group, Inc. (Alliance Global) paving the way for Alliance Global to subscribe to 5 billion common shares of the Company at a subscription price of One Peso (P1.00) per share for a total subscription price of P5 billion, Philippine currency, to be issued out of an increase in the capital stock of the Company from P5 billion to P10 billion. On 20 January 2011, said increase was approved by the Securities and Exchange Commission.

On June 30, 2011, the stockholders of the Company representing more than 2/3 of the outstanding capital stock of the Company ratified the P5 billion subscription of Alliance Global which subscription represents sixty percent (60%) of the outstanding capital stock of the Company.

On 23 September 2011, the Board of Directors of Company approved the increase in authorized capital stock of the Company from Ten Billion Pesos (Php10,000,000,000.00) divided into Ten Billion (10,000,000,000) common shares with a par value of One Peso (Php1.00) each to Twenty Billion Pesos (Php20,000,000,000.00) divided into Twenty Billion (20,000,000,000) common shares with a par value of One Peso (Php1.00) each. The shareholders ratified the increase on 8 November 2011.

On 21 June 2013, the Board of Directors of the Company approved the subscription by Megaworld Corporation to Two Billion Five Hundred Million (2,500,000,000) shares of the increase in capital stock of the Company, at the price of Two Pesos and Twenty Six (Php2.26) per share for an aggregate subscription price of Five Billion Six Hundred Fifty Million Pesos (Php5,650,000,000.00).

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

No transaction was undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or to be involved or had or will have a direct or indirect material interest.

No single Director or Executive Officer, nominee for election as Director, or any member of their immediate family owns or holds more than 10% of the Company's voting shares.

Advances granted to and obtained from subsidiaries, associates and other related parties are for purposes of working capital requirements.

## PART V – EXHIBITS AND SCHEDULES

A. Reports on SEC Form 17-C

The following reports on SEC Form 17-C were among those filed during the last six month period covered by this report:

- June 21, 2013 – Postponement of the 2013 ASM from 27 June 2013 to 30 July 2013
- June 21, 2013 – The BOD approved the subscription by Megaworld Corporation to Two Billion Five Hundred Million (2,500,000,000) shares of capital stock of the Company, at the price per share of Two Pesos and Twenty-Six Centavos (Php2.26), for a total subscription price of Five Billion Six Hundred Fifty Million Pesos (Php5,650,000,000.00).
- July 30, 2013 –Press Release – GERI sold P5.6B in 1st half of 2013
- July 30, 2013 – 2013 Annual Stockholders' Meeting and Organizational Meeting of the BOD
- August 15, 2013 – Issuance of 2.5B common shares to Megaworld Corporation

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized in Pasig City on April ___, 2014.

By:

**Atty. Ferdinand T. Santos**
President
*Principal Operating Officer*

**Lailani V. Villanueva**
Chief Finance Officer
*Principal Financial Officer*

**Atty. Dominic V. Isberto**
Corporate Secretary

**Gervinna Z. Lopez**
Asst. Comptroller
*Principal Accounting Officer*

SUBSCRIBED AND SWORN to before me this 11 APR 2014 day of ________ 2014 affiants exhibiting to me their valid identification card, as follows:

| NAMES | Passport/LTO License/ SSS No. | Expiration Date | Place of Issue |
|---|---|---|---|
| Atty. Ferdinand T. Santos | Passport #XX4696095 | 10/06/14 | Manila |
| Lailani V. Villanueva | Passport #EB2520794 | 05/20/16 | Manila |
| Atty. Dominic Isberto | 331952824-1 | -- | -- |
| Gervinna Z. Lopez | 339764957-9 | -- | -- |

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Book No. : VIII
Series of 2014.

ALLAN B. QUINTANA
NOTARY PUBLIC
Pasig, San Juan ... Taguig
Appt. No. ...
6F Renaissance ... Pasig City
ATTY ...
IBP No. ...
PTR No. 97... 2014
MCLE Compliance No. IV-0002924

# COVER SHEET

S.E.C. Registration Number

GLOBAL-ESTATE RESORTS INC
AND SUBSIDIARIES

(Company's Full Name)

7th Floor Renaissance Towers
Meralco Avenue Pasig City

(Business Address: No. Street City/ Town/ Province)

| LAILANI V. VILLANUEVA | 576-3376 |
|---|---|
| Contact Person | Company Telephone Number |

| 12 | 31 | AFFS | 06 | 30 |
|---|---|---|---|---|
| Month | Day | FORM TYPE | Month | Day |
| calendar year | | | annual meeting | |

Secondary License Type, If Appplicable

Dept. Requiring this Doc.

Amended Articles Number/ Section

Total Amount of Borrowings

Domestic

Foreign

********************************************************************************************************************

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

GLOBAL-ESTATE RESORTS, INC.

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Global-Estate Resorts, Inc. and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements for the years ended **December 2013 and 2012** in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

a. Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68
b. Reconciliation of Retained Earnings Available for Dividend Declaration.
c. Schedule of PFRS Effective as of December 31, 2013
d. Schedule of Financial Indicators for December 31, 2013 and 2012.
e. Map showing the Relationship Between and Among the Company and its Related Entities

Management responsibility on financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors and appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

**ANDREW L. TAN**
**Chairman of the Board**

**FERDINAND T. SANTOS**
**President**

**LAILANI V. VILLANUEVA**
**Chief Finance Officer**

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2014
RECEIVED
VERONICA EDEN C. PALENCIA

**SUBSCRIBED AND SWORN** to before me this _____ day of 2 8 MAR 2014 at PASIG CITY, Philippines, affiants exhibited to me their respective Identification cards, as follows:

| NAMES | Identification Card No: |
| --- | --- |
| Andrew L. Tan | Philippine Passport No. EB1964603 |
| Ferdinand T. Santos | Philippine Passport No. XX4696095 |
| Lailani V. Villanueva | Driver's License No. CO5-13-003174 |

**IN WITNESS WHEREOF,** I have hereunto set my hand and affixed my Notarial Seal on the date and place above written.

Doc. No. 494 ;
Page No. 100 ;
Book No. VII ;
Series of 2014 .

ALAN B. QUINTANA
NOTARY PUBLIC
Pasig, [illegible] Taguig
App[illegible] 2014
6F Renaissance [illegible], Pasig City
ATTO[illegible]58
IBP No. [illegible]12
PTR No. 979[illegible] Pasig 1-2-2014
MCLE Compliance No. IV - 0002924

Punongbayan & Araullo

An instinct for growth™

Consolidated Financial Statements and
Independent Auditors' Report

# Global-Estate Resorts, Inc. and Subsidiaries

For the Years Ended December 31, 2013 and 2012
and for the Three Months Ended December 31, 2011
*(With Corresponding Figures as of January 1, 2012)*

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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F +63 2 886 5506
www.punongbayan-araullo.com

**The Board of Directors and Stockholders**
**Global-Estate Resorts, Inc. and Subsidiaries**
***(A Subsidiary of Alliance Global Group, Inc.)***
7th Floor, Renaissance Towers
Meralco Avenue
Pasig City



We have audited the accompanying consolidated financial statements of Global-Estate Resorts, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2013 and 2012, and for the three months ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Global-Estate Resorts, Inc. and Subsidiaries as at December 31, 2013 and 2012, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2013 and 2012, and for the three months ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

**PUNONGBAYAN & ARAULLO**

**By: Nelson J. Dinio**
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 4225008, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 1036-AR-1 (until Aug. 21, 2016)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-32-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2014
RECEIVED
VERONICA EDEN C. PALENCIA

March 14, 2014

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2013 AND 2012**
***(With Corresponding Figures as of January 1, 2012)***
***(Amounts in Philippine Pesos)***



| | Notes | December 31, 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 5 | **P 4,469,172,263** | P 466,229,767 | P 993,080,142 |
| Trade and other receivables - net | 6 | **1,451,622,737** | 1,127,461,108 | 1,343,829,960 |
| Advances to related parties | 20 | **928,907,676** | 930,172,521 | 805,678,513 |
| Real estate, golf and resort shares for sale - net | 7 | **9,188,957,623** | 7,802,354,339 | 7,235,332,857 |
| Property development costs | 7 | **2,266,804,354** | 1,943,662,718 | 1,943,077,281 |
| Prepayments and other current assets | 8 | **1,055,858,034** | 909,000,685 | 583,652,238 |
| Total Current Assets | | **19,361,322,687** | 13,178,881,138 | 12,904,650,991 |
| **NON-CURRENT ASSETS** | | | | |
| Trade and other receivables - net | 6 | **1,166,486,296** | 859,460,082 | 364,002,779 |
| Advances to real estate property owners | 9 | **1,050,360,601** | 1,066,412,697 | 988,122,369 |
| Land for future development | 7 | **7,475,002,864** | 7,644,655,356 | 5,053,267,216 |
| Investments in associates | 10 | **740,123,240** | 740,852,066 | 749,686,444 |
| Investment property - net | 11 | **272,107,231** | 359,863,773 | 332,043,416 |
| Property and equipment - net | 12 | **936,553,142** | 661,782,739 | 498,174,413 |
| Other non-current assets | 2 | **41,589,779** | 105,749,458 | 92,422,490 |
| Total Non-current Assets | | **11,682,223,153** | 11,438,776,171 | 8,077,719,127 |
| **TOTAL ASSETS** | | **P 31,043,545,840** | P 24,617,657,309 | P 20,982,370,118 |

| | Notes | December 31, 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 13 | **P 1,962,262,380** | P 2,006,418,817 | P 1,628,197,042 |
| Customers' deposits | 2 | **1,077,946,207** | 549,694,152 | 625,121,726 |
| Advances from related parties | 20 | **514,812,058** | 1,045,853,526 | 717,119,587 |
| Reserve for property development | 7 | **61,105,092** | 50,525,392 | 223,537,180 |
| Deferred income on real estate sales | 2 | **391,058,812** | 305,236,742 | 520,538,660 |
| Total Current Liabilities | | **4,007,184,549** | 3,957,728,629 | 3,714,514,195 |
| **NON-CURRENT LIABILITIES** | | | | |
| Customers' deposits | 2 | **391,285,078** | 119,836,328 | - |
| Due to joint venture partners | 14 | **233,619,420** | 214,397,376 | 194,549,367 |
| Redeemable preferred shares | 15 | **1,257,987,900** | 1,257,987,900 | - |
| Reserve for property development | 7 | **711,185,237** | 673,397,082 | 618,493,326 |
| Deferred income on real estate sales | 2 | **508,381,753** | 553,161,688 | 350,978,082 |
| Deferred tax liabilities - net | 19 | **200,784,996** | 133,497,655 | 84,641,988 |
| Retirement benefit obligation | 18 | **41,467,601** | 35,293,967 | 44,115,592 |
| Other non-current liabilities | 15 | **63,926,246** | 60,546,635 | 74,153,261 |
| Total Non-current Liabilities | | **3,408,638,231** | 3,048,118,631 | 1,366,931,616 |
| Total Liabilities | | **7,415,822,780** | 7,005,847,260 | 5,081,445,811 |
| **EQUITY** | | | | |
| Equity attributable to owners of the parent company: | | | | |
| Capital stock | 21 | **10,986,000,000** | 8,486,000,000 | 8,356,000,000 |
| Additional paid-in capital | | **4,747,739,274** | 1,597,739,274 | 1,597,739,274 |
| Revaluation reserves | 18 | **9,991,008** | 17,507,497 | 7,543,098 |
| Retained earnings | | **4,361,128,809** | 4,007,167,838 | 3,674,475,555 |
| | | **20,104,859,091** | 14,108,414,609 | 13,635,757,927 |
| Non-controlling interest | | **3,522,863,969** | 3,503,395,440 | 2,265,166,380 |
| Total Equity | | **23,627,723,060** | 17,611,810,049 | 15,900,924,307 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 31,043,545,840** | P 24,617,657,309 | P 20,982,370,118 |

***See Notes to Consolidated Financial Statements.***

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2014
RECEIVED
VERONICA EDEN C. PALENCIA

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**
**AND FOR THE THREE MONTHS ENDED DECEMBER 31, 2011**
***(Amounts in Philippine Pesos)***

| | Notes | December 31, 2013 (One Year) | December 31, 2012 (As Restated - see Note 2) (One Year) | December 31, 2011 (As Restated - see Note 2) (Three Months- see Note 1) |
|---|---|---|---|---|
| **REVENUES AND INCOME** | | | | |
| Real estate sales | 2 | P 906,076,784 | P 684,883,471 | P 167,108,367 |
| Rental income | 11 | 61,756,654 | 64,292,641 | 8,693,959 |
| Hotel operations | 2 | 330,766,108 | 131,330,139 | 4,791,033 |
| Realized gross profit on prior years' real estate sales | 2 | 178,587,108 | 287,942,717 | - |
| Maintenance income | 2 | 119,224,366 | 22,315,085 | - |
| Finance and other income | 16 | 162,304,229 | 199,455,739 | 71,864,585 |
| | | 1,758,715,249 | 1,390,219,792 | 252,457,944 |
| **COSTS AND EXPENSES** | | | | |
| Cost of real estate sales | 17 | 368,261,802 | 264,521,139 | 23,865,753 |
| Cost of services | 17 | 100,984,952 | 30,155,257 | 9,898,334 |
| Cost of hotel operations | 17 | 141,842,485 | 42,217,660 | 3,647,360 |
| Deferred gross profit on real estate sales | 2 | 207,554,163 | 283,778,041 | 8,015,824 |
| Operating expenses | 17 | 379,784,720 | 338,546,948 | 131,995,608 |
| Equity share in net losses of associates | 10 | 728,826 | 5,890,949 | 2,668,991 |
| Finance costs and other charges | 16 | 106,326,751 | 106,344,069 | 25,525,884 |
| | | 1,305,483,699 | 1,071,454,063 | 205,617,754 |
| **PROFIT BEFORE TAX** | | 453,231,550 | 318,765,729 | 46,840,190 |
| **TAX EXPENSE** | 19 | 112,364,600 | 54,395,877 | 13,575,602 |
| **NET PROFIT** | | 340,866,950 | 264,369,852 | 33,264,588 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Remeasurements of retirement benefit plan | 18 | ( 10,737,841 ) | 14,234,856 | - |
| Tax expense (income) | 19 | 3,221,352 | ( 4,270,457 ) | - |
| | | ( 7,516,489 ) | 9,964,399 | - |
| **TOTAL COMPREHENSIVE INCOME** | | P 333,350,461 | P 274,334,251 | P 33,264,588 |
| **Net profit (loss) attributable to:** | | | | |
| Parent company's shareholders | | P 321,398,421 | P 294,177,012 | P 42,978,060 |
| Non-controlling interest | | 19,468,529 | ( 29,807,160 ) | ( 9,713,472 ) |
| | | P 340,866,950 | P 264,369,852 | P 33,264,588 |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Parent company's shareholders | | P 313,881,932 | P 304,141,411 | P 42,978,060 |
| Non-controlling interest | | 19,468,529 | ( 29,807,160 ) | ( 9,713,472 ) |
| | | P 333,350,461 | P 274,334,251 | P 33,264,588 |
| **EARNINGS PER SHARE** | 22 | | | |
| Basic | | P 0.034 | P 0.035 | P 0.005 |
| Diluted | | P 0.034 | P 0.035 | P 0.005 |

*See Notes to Consolidated Financial Statements.*

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**
**AND FOR THE THREE MONTHS ENDED DECEMBER 31, 2011**
***(Amounts in Philippine Pesos)***

| | | Attributable to Parent Company's Shareholders | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Notes | Capital Stock | Additional Paid-in Capital | Revaluation Reserves | Retained Earnings | Total | Non-controlling Interest | Total Equity |
| Balance at January 1, 2013 | | | | | | | | |
| As previously reported | | P 8,486,000,000 | P 1,597,739,274 | ( P 1,100,000 ) | P 4,006,368,610 | P 14,089,007,884 | P 3,503,395,440 | P 17,592,403,324 |
| Effect of adoption of PAS 19 (Revised) | 2 | - | - | 18,607,497 | 799,228 | 19,406,725 | - | 19,406,725 |
| As restated | | 8,486,000,000 | 1,597,739,274 | 17,507,497 | 4,007,167,838 | 14,108,414,609 | 3,503,395,440 | 17,611,810,049 |
| Issuances during the year | 21 | 2,500,000,000 | 3,150,000,000 | - | - | 5,650,000,000 | - | 5,650,000,000 |
| Share-based employee compensation | 21 | - | - | - | 32,562,550 | 32,562,550 | - | 32,562,550 |
| Total comprehensive income for the year | | - | - | ( 7,516,489 ) | 321,398,421 | 313,881,932 | 19,468,529 | 333,350,461 |
| **Balance at December 31, 2013** | | **P 10,986,000,000** | **P 4,747,739,274** | **P 9,991,008** | **P 4,361,128,809** | **P 20,104,859,091** | **P 3,522,863,969** | **P 23,627,723,060** |
| Balance at January 1, 2012 | | | | | | | | |
| As previously reported | | P 8,356,000,000 | P 1,597,739,274 | ( P 1,100,000 ) | P 3,672,994,267 | P 13,625,633,541 | P 2,265,166,380 | P 15,890,799,921 |
| Effect of adoption of PAS 19 (Revised) | 2 | - | - | 8,643,098 | 1,481,288 | 10,124,386 | - | 10,124,386 |
| As restated | | 8,356,000,000 | 1,597,739,274 | 7,543,098 | 3,674,475,555 | 13,635,757,927 | 2,265,166,380 | 15,900,924,307 |
| Issuances during the year | 21 | 130,000,000 | - | - | - | 130,000,000 | - | 130,000,000 |
| Additions to NCI | | - | - | - | - | - | 1,268,036,220 | 1,268,036,220 |
| Share-based employee compensation | 21 | - | - | - | 38,515,271 | 38,515,271 | - | 38,515,271 |
| Total comprehensive income for the year | | - | - | 9,964,399 | 294,177,012 | 304,141,411 | ( 29,807,160 ) | 274,334,251 |
| Balance at December 31, 2012 | | P 8,486,000,000 | P 1,597,739,274 | P 17,507,497 | P 4,007,167,838 | P 14,108,414,609 | P 3,503,395,440 | P 17,611,810,049 |
| Balance at October 1, 2011 | | | | | | | | |
| As previously reported | | P 8,356,000,000 | P 1,597,739,274 | ( P 1,100,000 ) | P 3,630,016,207 | P 13,582,655,481 | P 265,549,569 | P 13,848,205,050 |
| Effect of adoption of PAS 19 (Revised) | 2 | - | - | 8,643,098 | 1,481,288 | 10,124,386 | - | 10,124,386 |
| As restated | | 8,356,000,000 | 1,597,739,274 | 7,543,098 | 3,631,497,495 | 13,592,779,867 | 265,549,569 | 13,858,329,436 |
| Additions to NCI | | - | - | - | - | - | 2,009,330,283 | 2,009,330,283 |
| Total comprehensive income for the period | | - | - | - | 42,978,060 | 42,978,060 | ( 9,713,472 ) | 33,264,588 |
| Balance at December 31, 2011 | | P 8,356,000,000 | P 1,597,739,274 | P 7,543,098 | P 3,674,475,555 | P 13,635,757,927 | P 2,265,166,380 | P 15,900,924,307 |

*See Notes to Consolidated Financial Statements.*

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**
**AND FOR THE THREE MONTHS ENDED DECEMBER 31, 2011**
***(Amounts in Philippine Pesos)***

| | Notes | December 31, 2013 (One Year) | December 31, 2012 (As Restated - see Note 2) (One Year) | December 31, 2011 (As Restated - see Note 2) (Three Months- see Note 1) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | P 453,231,550 | P 318,765,729 | P 46,840,190 |
| Adjustments for: | | | | |
| Finance income | 16 | ( 75,746,588 ) | ( 118,717,108 ) | ( 31,665,977 ) |
| Finance costs | 16 | 55,880,211 | 77,222,467 | 23,113,961 |
| Depreciation and amortization | 17 | 49,185,167 | 40,550,406 | 7,175,745 |
| Share-based employee compensation | 21 | 32,562,550 | 38,515,271 | - |
| Equity share in net losses of associates | 10 | 728,826 | 5,890,949 | 2,668,991 |
| Impairment losses | 16 | - | 29,121,602 | - |
| Gain on settlement of advances | 16 | - | - | ( 40,000,000 ) |
| Operating profit before working capital changes | | 515,841,716 | 391,349,316 | 8,132,910 |
| Decrease (increase) in trade and other receivables | | ( 637,493,728 ) | ( 317,748,543 ) | 53,835,956 |
| Increase in real estate, golf and resort shares for sale | | ( 1,094,907,634 ) | ( 567,021,482 ) | ( 359,068,013 ) |
| Increase in property development costs | | ( 323,141,636 ) | ( 585,437 ) | ( 17,653,808 ) |
| Increase in prepayments and other current assets | | ( 182,354,678 ) | ( 331,709,757 ) | ( 212,570,234 ) |
| Decrease (increase) in advances to real estate property owners | | 29,149,091 | 4,789,254 | ( 5,163,321 ) |
| Increase (decrease) in trade and other payables | | ( 44,845,312 ) | 378,221,775 | ( 102,096,152 ) |
| Increase (decrease) in customers' deposits | | 799,700,805 | ( 75,427,574 ) | 3,248,066 |
| Increase (decrease) in reserve for property development | | 48,367,855 | ( 118,108,032 ) | ( 1,518,363 ) |
| Increase (decrease) in deferred income on real estate sales | | 41,042,135 | ( 13,118,312 ) | 2,131,171 |
| Increase (decrease) in retirement benefit obligation | | ( 6,585,848 ) | 2,250,844 | 100,447 |
| Increase in other non-current liabilities | | 3,379,611 | 106,229,702 | 74,153,261 |
| Cash used in operations | | ( 851,847,623 ) | ( 540,878,246 ) | ( 556,468,080 ) |
| Interest received | | 48,206,246 | 17,807,516 | 18,598,561 |
| Interest paid | | ( 45,985,078 ) | ( 17,528,908 ) | ( 13,384,428 ) |
| Cash paid for income taxes | | ( 6,358,578 ) | ( 3,449,357 ) | ( 2,910,923 ) |
| Net Cash Used in Operating Activities | | ( 855,985,033 ) | ( 544,048,995 ) | ( 554,164,870 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to: | | | | |
| Property and equipment | 12 | ( 166,780,605 ) | ( 198,857,754 ) | ( 8,335,908 ) |
| Land for future development | | ( 122,043,158 ) | ( 14,164,860 ) | ( 446,582,024 ) |
| Investment property | 11 | ( 69,418,423 ) | ( 83,150,811 ) | ( 127,302,661 ) |
| Proceeds from disposals of property and equipment | 12 | - | 1,773,745 | - |
| Cash advances granted to related parties | 20 | ( 109,672,376 ) | ( 303,648,993 ) | ( 260,936,818 ) |
| Collections of advances to related parties | 20 | 110,937,221 | 179,154,985 | 197,011,131 |
| Decrease (increase) in other non-current assets | | 64,159,679 | ( 13,326,968 ) | ( 6,888,017 ) |
| Net Cash Used in Investing Activities | | ( 292,817,662 ) | ( 432,220,656 ) | ( 653,034,297 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from issuance of shares of stock | 21 | 5,650,000,000 | 130,000,000 | - |
| Repayments of advances from related parties | 20 | ( 789,337,828 ) | ( 303,746,694 ) | ( 284,937,661 ) |
| Cash advances obtained from related parties | 20 | 291,083,019 | 623,165,970 | 662,617,889 |
| Proceeds from equity call | | - | - | 37,901,712 |
| Net Cash From Financing Activities | | 5,151,745,191 | 449,419,276 | 415,581,940 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | 4,002,942,496 | ( 526,850,375 ) | ( 791,617,227 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | | 466,229,767 | 993,080,142 | 1,784,697,369 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | | P 4,469,172,263 | P 466,229,767 | P 993,080,142 |

**Supplemental Information on Non-cash Investing and Financing Activities**

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate and other assets. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Properties or Real Estate, Golf and Resort Shares for Sale as the property goes through its various stages of development (see Note 2). Moreover, reclassifications of investment properties and property and equipment have been made. These non-cash activities are not reflected in the consolidated statements of cash flows (see Notes 7, 11 and 12).

*See Notes to Consolidated Financial Statements.*

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Alliance Global Group, Inc.)***
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2013 AND 2012**
***(Amounts in Philippine Pesos)***



## 1. CORPORATE INFORMATION

Global-Estate Resorts, Inc. (the Company or GERI) was incorporated in the Philippines on May 18, 1994, primarily to engage in the horizontal development of residential subdivision lots, integrated residential, golf and other leisure-related properties, and vertical development of mixed-use towers. The Company also engages in land acquisitions and maintains an inventory of raw land for future development.

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

The registered office of the Company, which is also its principal place of business, is located at the 7th Floor, Renaissance Towers, Meralco Avenue, Pasig City.

On January 20, 2011, Alliance Global Group, Inc. (AGI), also a publicly listed company in the Philippines, became the Company's parent company with its acquisition of 60% of the Company's shares of stock. AGI is a holding company with diversified investments in real estate, food and beverage, manufacturing, quick service restaurants and tourism-oriented businesses. As at December 31, 2013 and 2012, AGI has an effective ownership interest of 74% and 64%, respectively, of the Company's capital stock. AGI's registered office, which is also its primary place of business, is located at the 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Quezon City.

The Company holds interests in the following subsidiaries and associates (collectively, together with the Company, hereinafter referred to as the Group):

| Subsidiaries/Associates | Explanatory Notes | Percentage of Ownership December 31, 2013 | December 31, 2012 | December 31, 2011 |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| Fil-Estate Properties, Inc. (FEPI) | | **100%** | 100% | 100% |
| Aklan Holdings Inc. (AHI) | (a) | **100%** | 100% | 100% |
| Blu Sky Airways, Inc. (BSAI) | (a) | **100%** | 100% | 100% |
| Fil-Estate Subic Development Corp. (FESDC) | (a) | **100%** | 100% | 100% |
| Fil-Power Construction Equipment Leasing Corp. (FPCELC) | (a) | **100%** | 100% | 100% |
| Golden Sun Airways, Inc. (GSAI) | (a) | **100%** | 100% | 100% |
| La Compaña De Sta. Barbara, Inc. (LCSBI) | (a) | **100%** | 100% | 100% |
| MCX Corporation (MCX) | (a) | **100%** | 100% | 100% |
| Pioneer L-5 Realty Corp. (PLRC) | (a) | **100%** | 100% | 100% |
| Prime Airways, Inc. (PAI) | (a) | **100%** | 100% | 100% |
| Sto. Domingo Place Development Corp. (SDPDC) | (a) | **100%** | 100% | 100% |
| Fil-Power Concrete Blocks Corp. (FPCBC) | (a) | **100%** | 100% | 100% |
| Boracay Newcoast Hotel Group, Inc. (BNHGI) | (a) | **100%** | 100% | - |
| Fil-Estate Industrial Park, Inc. (FEIPI) | (a) | **79%** | 79% | 79% |
| Sherwood Hills Development Inc. (SHDI) | (a) | **55%** | 55% | 55% |

| Subsidiaries/Associates | Explanatory Notes | Percentage of Ownership December 31, 2013 | December 31, 2012 | December 31, 2011 |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| Fil-Estate Golf and Development, Inc. (FEGDI) | | **100%** | 100% | 100% |
| Golforce, Inc. (Golforce) | (b) | **100%** | 100% | 100% |
| Fil-Estate Ecocentrum Corp. (FEEC) | (b) | **56%** | 56% | 56% |
| Philippine Aquatic Leisure Corp. (PALC) | (c) | **56%** | 56% | 56% |
| Fil-Estate Urban Development Corp. (FEUDC) | | **100%** | 100% | 100% |
| Novo Sierra Holdings Corp. (NSHC) | | **100%** | 100% | 100% |
| Megaworld Global-Estate, Inc. (MGEI) | (d) | **60%** | 60% | 60% |
| Twin Lakes Corp. (TLC) | (e) | **51%** | 51% | 53% |
| Oceanfront Properties, Inc. (OPI) | (f) | **50%** | 50% | - |
| **Associates:** | | | | |
| Fil-Estate Network, Inc. (FENI) | | **20%** | 20% | 20% |
| Fil-Estate Sales, Inc. (FESI) | | **20%** | 20% | 20% |
| Fil-Estate Realty and Sales Associates Inc. (FERSAI) | | **20%** | 20% | 20% |
| Fil-Estate Realty Corp. (FERC) | | **20%** | 20% | 20% |
| Nasugbu Properties, Inc. (NPI) | | **14%** | 14% | 14% |
| OPI | (f) | **-** | - | 50% |

Non-controlling interests (NCI) in 2013 and 2012 represent the interests not held by the Group in FEIPI, SHDI, FEEC, PALC, MGEI, TLC, and OPI.

**Explanatory notes:**

(a) Subsidiaries of FEPI; percentage ownership represents effective ownership of GERI.

(b) Subsidiaries of FEGDI; percentage ownership represents effective ownership of GERI.

(c) Subsidiary of FEEC.

(d) Subsidiary acquired in 2011 primarily to market the Group's projects.

(e) Subsidiary acquired in 2011; engaged in the real estate business. On June 6, 2011, TLC approved the additional issuance of its common shares through exchange of certain parcels of land owned by several parties, including the Company and FEPI. This transaction resulted to the decrease of the Company's effective ownership interest in TLC from 100% to 53%. On September 4, 2012, TLC issued additional shares to third parties which further decreased the Company's effective ownership interest in TLC from 53% to 51%.

(f) In 2012, the Company gained control over OPI [see Note 3.1(c)]; hence, was considered as a subsidiary starting in 2012; engaged in the real estate business.

All subsidiaries and associates were incorporated in the Philippines, operate within the country and are engaged in businesses related to the main business of the Company.

On January 15, 2011, the Company's Board of Directors (BOD) approved the change in accounting period of the Company from fiscal year ending September 30 to calendar year ending December 31. The change in accounting period was approved by the Securities and Exchange Commission (SEC) on March 29, 2011.

The consolidated financial statements of the Group for the year ended December 31, 2013 (including the comparative financial statements for December 31, 2012 and the corresponding figures as at January 1, 2012) were authorized for issue by the Company's BOD on March 14, 2014.

## 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. The policies have been consistently applied to all the periods 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 (IASB).

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 expense in a single consolidated statement of comprehensive income.

When the Group applies an accounting policy retrospectively or makes a retrospective restatement or reclassifies items that have a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period, it presents three consolidated statements of financial position and two each of the other statements and related notes. The related notes to the third statement of financial position are not required to be disclosed.

The Group's adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts in the comparative financial statements for December 31, 2012 and in the corresponding figures as of January 1, 2012 [see Note 2.2(a)(ii)]. Accordingly, the Company presents a third statement of financial position as at January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

*(c) Functional and Presentation Currency*

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

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

### *2.2 Adoption of New and Amended PFRS*

*(a) Effective in 2013 that is Relevant to the Group*

In 2013, the Group adopted the following new PFRS, amendments and annual improvements to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

| | | |
|---|---|---|
| PAS 1 (Amendment) | : | Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income |
| PAS 19 (Revised) | : | Employee Benefits |
| PFRS 7 (Amendment) | : | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities |
| PFRS 10 | : | Consolidated Financial Statements |
| PFRS 11 | : | Joint Arrangements |
| PFRS 12 | : | Disclosure of Interests in Other Entities |
| PAS 27 (Revised) | : | Separate Financial Statements |
| PAS 28 (Revised) | : | Investments in Associate and Joint Venture |
| PFRS 10, 11 and 12 (Amendments) | : | Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12 |
| PFRS 13 | : | Fair Value Measurement |
| Annual Improvements | : | Annual Improvements to PFRS (2009-2011 Cycle) |

Discussed below are the relevant information about these amended standards.

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively; hence, the presentation of other comprehensive income has been modified to reflect the changes.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative consolidated financial statements for December 31, 2012 and the corresponding figures as at January 1, 2012. The effect of the restatement on the affected liabilities and equity components is shown below.

| | December 31, 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| *Changes in liabilities:* | | | |
| Deferred tax liabilities - net | P 125,180,487 | P 8,317,168 | P 133,497,655 |
| Retirement benefit obligation | 63,017,860 | ( 27,723,893) | 35,293,967 |
| Net decrease in liabilities | | P 19,406,725 | |
| *Changes in components of equity:* | | | |
| Revaluation reserves | (P 1,100,000) | P 18,607,497 | P 17,507,497 |
| Retained earnings | 4,006,368,610 | 799,228 | 4,007,167,838 |
| Net increase in equity | | P 19,406,725 | |

| | January 1, 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| *Changes in liabilities:* | | | |
| Deferred tax liabilities - net | P 80,302,966 | P 4,339,022 | P 84,641,988 |
| Retirement benefit obligation | 58,579,000 | ( 14,463,408) | 44,115,592 |
| Net decrease in liabilities | | P 10,124,386 | |
| *Changes in components of equity:* | | | |
| Revaluation reserves | (P 1,100,000) | P 8,643,098 | P 7,543,098 |
| Retained earnings | 3,672,994,267 | 1,481,288 | 3,674,475,555 |
| Net increase in equity | | P 10,124,386 | |

The effects of the adoption of PAS 19 (Revised) on the consolidated statement of comprehensive income for the year ended December 31, 2012 are shown below.

| | Notes | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
|---|---|---|---|---|
| *Changes in profit or loss:* | | | | |
| Operating expenses | 17 | P 340,734,964 | (P 2,188,016) | P 338,546,948 |
| Finance costs and other charges | 16 | 103,181,682 | 3,162,387 | 106,344,069 |
| Tax expense | 19 | 54,688,188 | ( 292,311) | 54,395,877 |
| | | | P 682,060 | |

| | Notes | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
|---|---|---|---|---|
| *Changes in other comprehensive income:* | | | | |
| Remeasurements of retirement benefit plan | 18 | P - | P 14,234,856 | P 14,234,856 |
| Tax income | 19 | - | ( 4,270,457) | ( 4,270,457) |
| | | | P 9,964,399 | |

The effects of the adoption of PAS 19 (Revised) on the consolidated statement of comprehensive income for the three months ended December 31, 2011 pertains only to the reclassification of interest expense amounting to P387,988 from Operating Expenses to Finance Costs and Other Charges account.

The adoption of PAS 19 (Revised) did not have a material impact on the Group's consolidated statements of cash flows for the periods ended December 31, 2012 and 2011.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation.* The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. The adoption of this amendment did not result in any significant changes in the Group's disclosures on its consolidated financial statements as it has no master netting arrangements; however, potential offsetting arrangements is disclosed in Note 25.2.

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

This package of consolidation, joint arrangements, associates and disclosures standards comprise of PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PFRS 12, *Disclosure of Interests in Other Entities*, PAS 27 (Revised 2011), *Separate Financial Statements* and PAS 28 (Revised 2011), *Investments in Associates and Joint Ventures.*

- PFRS 10 changes the definition of control focusing on three elements which determine whether the investor has control over the investee such as the: (a) power over the investee, (b) exposure or rights to variable returns from involvement with the investee, and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining control when it is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.

- PFRS 11 deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.

- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

Subsequent to the issuance of these standards, amendments to PFRS 10, PFRS 11 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and it has determined that the adoption of the foregoing standards, revisions and amendments had no material impact on the amounts recognized in the consolidated financial statements. Additional information, however, are disclosed in compliance with the requirements of PFRS 12 and PAS 27 (Revised) (see Note 10).

(v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRSs require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. The new standard applies prospectively from annual period beginning January 1, 2013; hence, disclosure requirements need not be presented in the comparative information in the first year of application. Other than the disclosure presented in Note 26, the application of this new standard had no significant impact on the amounts recognized in the consolidated financial statements.

(vi) 2009 – 2011 Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, related notes to the third statement of financial position are not required to be presented.

  Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior periods' financial statements, the Group has presented a third consolidated statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

- PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments.* The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes.* Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it did not have distributions to holders of equity instruments during the year.

- PAS 34 (Amendment), *Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities.* This standard clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of PFRS 8, *Operating Segments.* It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision-maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. The adoption of this amendment did not have an effect on the Group's consolidated financial statements as the form and content of these complete set of financial statements conform to the requirements of PAS 1.

*(b) Effective in 2013 that are not Relevant to the Group*

The following amendments and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Group's consolidated financial statements:

| | | |
|---|---|---|
| PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Government Loans |
| PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs |
| Philippine Interpretation International Financial Reporting Interpretations Committee 20 | : | Stripping Costs in the Production Phase of a Surface Mine |

*(c) Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's consolidated financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in the Group's subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements, if applicable.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have an impact on its consolidated financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued on November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 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 arrangement, 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 main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to IFRS 9 that contain new chapter and 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. The amendment also now 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 in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS/PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(vi) Annual Improvements to PFRS. Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

- PAS 24 (Amendment), *Related Party Disclosures.* The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

- PFRS 13 (Amendment), *Fair Value Measurement.* The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

- PFRS 13 (Amendment), *Fair Value Measurement.* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

- PAS 40 (Amendment), *Investment Property.* The amendment clarifies the interrelationship of PFRS 3, *Business Combinations,* and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

(vii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate.* This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and Philippine SEC after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage of completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at completion upon or after delivery. The Group is currently evaluating the impact of this interpretation on its consolidated financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines.

### *2.3 Basis of Consolidation*

The Group's consolidated financial statements comprise the accounts of the Company, and its subsidiaries as enumerated below, 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.

Financial statements of entities in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

The Company accounts for its investments in subsidiaries, associates, interests in joint operations and transactions with NCI as follows:

*(a) Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and 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 reassesses 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 NCI in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred 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 NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any NCI 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 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 also Note 2.10).

*(b) Investments in Associates*

Associates are those entities over which the Group 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 investments in associates are also 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 an associate.

All subsequent changes to the ownership interest in the equity of the associates 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 Losses of Associates account in the consolidated statement of comprehensive income.

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

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale (AFS) financial assets, are recognized in consolidated 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 in behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeded 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 Group'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) Interests in Joint Operations*

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint control arises from a contractually agreed sharing of control in an arrangement, which exist only when decisions about the relevant activities require unanimous consent of the parties sharing control. For interests in joint operations, the Group recognized in its consolidated financial statements its assets including its share of any assets held jointly; its liabilities including its share of any liabilities incurred jointly; its revenue from sale of its share of the output arising from the joint operation; its expenses including its share of any expenses incurred jointly; and its share in the income from the sale of goods or services by the joint operation. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group and are measured and recognized in accordance with the relevant financial reporting standards.

No adjustment and consolidation procedures are required for the assets, liabilities, income and expenses of the joint operation that are recognized in the separate financial statements of the joint operators.

*(d) Transactions with NCI*

The Group's transactions with NCI 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 NCI 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.

### *2.4 Financial Assets*

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (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 transaction costs related to it are recognized in profit or loss.

The financial asset categories currently relevant to the Group are as follows:

*(a) 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 maturities greater than 12 months after the reporting period, which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. 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 Group's financial assets categorized as loans and receivables are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (except Advances to Contractors and Suppliers and Advances to Raw Landowners) and Advances to Related Parties. 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.

*(b) 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 classified as non-current assets in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period. The Group's AFS financial assets include proprietary golf club membership shares and are presented as part of the Other Non-current Assets account in the consolidated statement of financial position.

All financial assets within this category are subsequently measured at fair value. 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 loss and foreign exchange difference in monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, 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.

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.

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

For investments that are actively traded in organized financial markets, if any, fair value is determined by reference to exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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.

The 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.

### *2.5 Real Estate Transactions*

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to the Land for Future Development account. These costs are reclassified to Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Group as part of Property Development Costs or Real Estate, Golf and Resort Shares for Sale account (see Note 2.20). Once a revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Real Estate, Golf and Resort Shares for Sale account.

The cost of real estate property sold before completion of the development, if any, 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 sold real estate property, as determined by the project engineers, are charged to the Cost of Real Estate Sales presented in the consolidated statement of comprehensive income with a corresponding credit to Reserve for Property Development account, a liability account.

Costs of properties and projects classified under Land for Future Development, Property Development Costs and Real Estate, Golf and Resort Shares 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.

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 during the period in which the loss is determined.

Revenue and cost relative to forfeited or back-out sales are reversed in the current year as they occur.

### *2.6 Prepayments and Other Current Assets*

Prepayments and other current 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 entity and the asset has a cost or value that can be measured reliably.

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 non-current assets.

### *2.7 Property and Equipment*

Property and equipment, except land, are carried at acquisition or construction cost less subsequent depreciation, amortization and impairment losses, if any. As no finite useful life for land can be determined, related carrying amount are not depreciated. Land is stated at cost less any impairment losses.

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; expenditures for repairs and maintenance are charged to expenses as incurred.

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

| | |
|---|---|
| Building | 50 years |
| Building and office improvements | 5-10 years |
| Transportation and other equipment | 5 years |
| Office furniture, fixtures and equipment | 3-5 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 also Note 2.17).

The residual values and estimated useful lives 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 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 profit or loss in the year the item is derecognized.

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.

### *2.8 Investment Property*

Investment property consists of parcels of land and buildings held for lease. Buildings are carried at cost less accumulated depreciation and any impairment losses. Land is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable expenditure. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Amortization is computed on a straight-line basis over the estimated useful life of the assets as follows:

| | |
|---|---|
| Land development and improvements | 20 years |
| Building and improvements | 10-50 years |

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

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

Transfers to, or from, investment property shall be made when and only when there is a change in use or purpose for such property.

An item of investment property 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.

### *2.9 Financial Liabilities*

Financial liabilities, which include Trade and Other Payables (except tax-related liabilities), Advances from Related Parties, Due to Joint Venture Partners and Redeemable Preferred Shares, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges, if any, incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

Financial 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.

Preferred shares, which carry a mandatory coupon or are redeemable on specific date or at the option of the shareholder, are classified as financial liabilities and presented as a separate line item in the consolidated statement of financial position as Redeemable Preferred Shares.

Dividend distributions to shareholders, if any, are recognized as financial liabilities when the dividends are approved by the BOD. The dividends on the redeemable preferred shares are recognized in the consolidated statement of comprehensive income as interest expense on an amortized cost basis using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after 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 twelve months after the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the 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.

### *2.10 Business Combination*

Business acquisitions are accounted for using the acquisition method of accounting (see Note 2.3).

Goodwill, if any, 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, if any, 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.

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 profit or loss.

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.

### *2.11 Segment Reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's BOD; its chief operating decision-maker. The BOD 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 are the same as those used in its financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses;
- expenses relating to share-based payments;
- research costs relating to new business activities; and,
- revenue, costs and fair value gains from investment property.

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.

### *2.12 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 commitment 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 pretax 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.

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.

### *2.13 Offsetting of Financial Instruments*

Financial assets and liabilities, particularly advances to and from related parties, are set-off and the resulting net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### *2.14 Revenue and Expense Recognition*

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT).

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

*(a)* *Real estate sales* – For financial reporting purposes, revenues from transactions covering sales of real estate are recognized under the percentage-of-completion method. Under this method, realization of gross profit 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. The unrealized gross profit on a period's sales is presented as Deferred Gross Profit on Real Estate Sales in the consolidated statement of comprehensive income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales in the consolidated statement of financial position.

The sale is recognized when a certain percentage of the total contract price has already been collected. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyer are initially recorded as part of Customers' Deposits account in the consolidated statement of financial position.

Revenues on sales of undeveloped land and golf and resort shares for sale, on the other hand, are recognized using the full accrual method. Under the full accrual method, revenue is recognized when the risks and rewards of ownership in the undeveloped land and golf and resort shares have passed to the buyer and the amount of revenue can be measured reliably. Revenues and costs relative to forfeited or back out sales are reversed in the current year as they occur.

Any adjustments relative to previous periods' sales are recorded in the current period as they occur.

For tax reporting purposes, a modified basis of computing the taxable income for the period based on collections from sales is used by the Group.

(b) *Maintenance income* – Revenue is recognized when the performance of mutually agreed tasks has been rendered.

(c) *Rental income and hotel operations* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. Rental income is recognized on a straight-line basis over the lease term (see Note 2.15). Advance rentals received are recorded as deferred rental income and are taxable on the period received. For tax purposes, rental income is recognized based on the contractual terms of the lease.

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

(e) *Dividends* – Revenue is recorded when the Group's right to receive the payment is established.

Cost of real estate sales before completion of the projects include the acquisition cost of the land, development costs incurred to date, applicable borrowing costs (see Note 2.20) and estimated costs to complete the project, determined based on estimates made by the project engineers on the stage of completion of the real estate project (see Note 2.5).

Cost and expenses and other costs (other than costs of real estate sold) are recognized in profit or loss upon utilization of the services or 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 2.20).

### *2.15 Operating 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 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 in profit or loss on a straight-line basis over the lease term (see Note 2.14).

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.

### *2.16 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 the consolidated statement of comprehensive income as part of income or loss from operations.

### *2.17 Impairment of Non-financial Assets*

The Group's Investments in Associates, Investment Property, Property and Equipment and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that their carrying amounts 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, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount 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 Company's employee benefits are recognized and measured 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 liability recognized in the 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 annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by Philippine Dealing and Exchange Corporation (PDEX), 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 net interest), if any, are reflected immediately in the 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 statement of profit or loss.

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

*(b) Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

*(c) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Trade and Other Payables account of 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 Share-based Employee Remuneration*

The Company grants share options to key executive officers eligible under a stock option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in profit or loss with a corresponding credit to retained earnings.

The expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number that ultimately vests on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as additional paid-in capital (APIC).

### *2.20 Borrowing Costs*

For financial reporting purposes, borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production 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 the Property Development Costs or Real Estate, Golf and Resort Shares for Sale account (see Note 2.5). The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs 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. For income tax purposes, all interest and other borrowing costs are treated as deductible expenses in the period in which they are incurred.

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

### *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 Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

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

### *2.22 Equity*

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

APIC represents premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Revaluation reserves arise from the changes in fair value of the Group's AFS financial assets and remeasurements on retirement benefit obligation, net of applicable taxes.

Retained earnings includes all current and prior period results of operations as reported in the profit or loss section of the consolidated statements of comprehensive income and share-based employee remuneration, reduced by the amounts of dividends declared, if any.

### *2.23 Basic and Diluted Earnings per Share*

Basic earnings per share is determined by dividing the consolidated net profit by the weighted average number of common shares subscribed and issued during the year, after giving retroactive effect to any stock dividends, stock split or reverse stock split declared in the current year.

Diluted earnings per share is computed in the same manner as the basic earnings per share and assuming further that at the beginning of the year or at the time of issuance during the year, all outstanding convertible instruments were converted to common stock and the conversion would result to a decrease in the basic earnings per share or increase in the basic loss per share.

### *2.24 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 reporting period. These are calculated using 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 profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the 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 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 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 tax asset to be utilized.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in 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.

### *2.25 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 Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the 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 differ from these estimates.

### *3.1 Critical Management 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) Distinction among Investment Property, Owner-occupied Properties and Land for Future Development*

The Group determines whether an asset qualifies as an item of investment property, owner-occupied property or land for future development. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the operations of the Group or for administrative purposes while land for future development are properties intended solely for future development.

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.

*(b) Determining Significant Influence over Entities in which the Group Holds Less than 20% Ownership*

The Group determines whether significant influence exists over an investee company over which the Group holds less than 20% of the investee's capital stock. The Company considers the ability to influence the operating and financial policies of the investee, representation on the board of directors of the investee and routine participation in management decisions in making its judgment. Based on management's judgment, the Group has significant influence over these investee companies (see Note 10.1).

*(c) Investment in a Subsidiary in which the Group Holds 50% or Less*

Management considers that the Company has de facto control over OPI even though it does not hold more than 50% of the ordinary shares and voting rights of OPI due to the factors discussed below.

The Company holds 50% equity interest over OPI and has: (1) the ability to direct the relevant activities of OPI; (2) the rights to variable returns from its involvement with OPI; and, (3) the ability to use its power to affect its returns from its involvement with OPI. Based on management's judgment, the Group has control over OPI and was consolidated in the financial statements of the Group.

*(d) Distinction between Operating and Finance Leases*

Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a 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.

*(e) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Note 23.

### *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) 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 profit or loss in the subsequent period.

*(b) Impairment of Trade and Other Receivables*

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 collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

No additional impairment losses on trade and other receivables were recognized for the periods ended December 31, 2013, 2012 and 2011 (see Note 6).

*(c) Determining Net Realizable Value of Real Estate, Golf and Resort Shares For Sale, Property Development Costs and Land For Future Development*

In determining the net realizable value of real estate and resort shares for sale, property development costs and land 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 and uncertainty and may cause significant adjustments to the Group's real estate, golf and resort shares for sale, property development costs and land for future development within the next reporting period.

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

*(d) Fair Value of Stock Option*

The Company estimates the fair value of the executive stock option by applying an option valuation model, taking into account the terms and conditions on which the executive stock option were granted. The estimates and assumptions used are presented in Note 21.2 which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the Company's share price and fair value of the Company's common shares. Changes in these factors can affect the fair value of stock options at grant date.

The fair value of the executive stock option recognized as part of salaries and employee benefits shown under Operating Expenses in the consolidated statements of comprehensive income amounted to P32.6 million and P38.5 million for the years ended December 31, 2013 and 2012, respectively. A corresponding credit to Retained Earnings of the same amount is presented in the equity section of the consolidated statements of financial position (see Notes 17 and 21.2).

*(e) Estimating Useful Lives of Investment Property and Property and Equipment*

The Group estimates the useful lives of investment property and property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment property and property and equipment 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 investment property and property and equipment are analyzed in Notes 11 and 12, respectively. Based on management's assessment as at December 31, 2013 and 2012, there are no changes in the estimated useful lives of those assets as of the end of the reporting periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(f) Fair Value Measurement of Investment Property*

Investment property is measured using the cost model. The fair value disclosed in Note 11 to the consolidated financial statements is determined by the Group using the discounted cash flows valuation technique since the information on current or recent prices of assumptions underlying the discounted cash flow approach of investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at the end of each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

*(g) Determining 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. Management assessed that the deferred tax assets recognized as at December 31, 2013 and 2012 will be fully utilized within the prescribed period of availment. The carrying value of deferred tax assets as of those dates is disclosed in Note 19.

*(h) Impairment of Non-financial Assets*

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized on investments in associates, investment property and property and equipment and other non-financial assets for the periods ended December 31, 2013, 2012 and 2011 (see Notes 10, 11 and 12).

*(i) Valuation of Post-employment Benefit*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets, salary rate increase, and employee turnover. In accordance with PFRS, actual results that differ from the assumptions are recognized immediately in other comprehensive income in the period in which they arise.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 18.2.

*(j) 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 the percentage-of-completion 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 period.

*(k) Basis for Revenue Recognition Benchmark*

As discussed in Note 2.14(a), the Group recognizes its revenue from sale of real estate in full when 25% or more of the total contract price is received. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 25% of the contract price has been received from the buyer and the Group has ascertained the buyer's commitment to complete the payment of the total contract price.

## 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 of residential and office units including urban centers integrating office, residential and commercial components. The Real Estate segment pertains to the development and sale of residential and office projects. The Rental segment includes leasing of office and commercial spaces. The Maintenance Services segment relates to maintenance of golf courses. The Corporate and Others segment includes marketing services, general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 2.11. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

### *4.2 Segment Assets and Segment Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash, receivables, real estate inventories, property and equipment, and investment property, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages and taxes currently payable and accrued liabilities. Segment assets and segment liabilities do not include deferred taxes.

### *4.3 Intersegment Transactions*

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

### 4.4 *Analysis of Segment Information*

The tables presented below and in the succeeding pages present revenue and profit information regarding industry segments for the periods ended December 31, 2013, 2012 and 2011 and certain asset and liability information regarding segments as at December 31, 2013, 2012 and 2011.

## As of and for the Year Ended December 31, 2013

| | Real Estate | Rental | Hotel Operations | Maintenance Services | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | | |
| Sales to external customers | P 1,084,663,892 | P 61,756,654 | P 330,766,108 | P119,224,366 | P 26,013,396 | P - | P 1,622,424,416 |
| Intersegment sales | - | 78,682,391 | - | - | 33,748,527 | ( 112,430,918) | - |
| Total revenues | P 1,084,663,892 | P 140,439,045 | P330,766,108 | P119,224,366 | P 59,761,923 | (P112,430,918) | P 1,622,424,416 |
| **RESULTS** | | | | | | | |
| Segment results | P 350,313,414 | P 72,052,978 | P 107,420,399 | P 36,427,384 | P 6,546,014 | (P112,430,918) | P 460,329,271 |
| Unallocated expenses | | | | | | | ( 36,332,977) |
| Income from operations | | | | | | | 423,996,294 |
| Interest income | - | - | - | - | 136,290,833 | - | 136,290,833 |
| Finance costs | - | - | - | - | ( 106,263,840) | - | ( 106,263,840) |
| Equity in net losses of associates | - | - | - | - | ( 728,826) | - | ( 728,826) |
| Foreign currency losses – net | - | - | - | - | ( 62,911 ) | - | ( 62,911) |
| Income before tax | | | | | | | 453,231,550 |
| Tax expense | | | | | | | ( 112,364,600) |
| Net profit before non-controlling interest | | | | | | | 340,866,950 |
| Non-controlling interest share in net profit | | | | | | | 19,468,529 |
| Net income attributable to parent company's shareholders | | | | | | | P 321,398,421 |
| **ASSETS AND LIABILITIES** | | | | | | | |
| Segment assets | P22,866,055,628 | P 318,541,864 | P820,385,064 | P 123,387,344 | P4,901,001,308 | - | P29,029,371,208 |
| Investments in and advances to associates and other related parties | - | - | - | - | 1,669,030,916 | - | 1,669,030,916 |
| Unallocated assets | - | - | - | - | 345,143,716 | - | 345,143,716 |
| Total assets | P22,866,055,628 | P 318,541,864 | P820,385,064 | P 123,387,344 | P6,915,175,940 | - | P 31,043,545,840 |
| Total segment liabilities | P 6,184,406,938 | P 23,013,449 | P181,417,928 | P 66,865,978 | P 960,118,487 | P - | P 7,415,822,780 |
| **OTHER SEGMENT INFORMATION** | | | | | | | |
| Project and capital expenditures | P 1,859,986,375 | P 16,735,821 | P194,388,673 | P 4,799,129 | P 57,676,855 | P - | P 2,133,586,853 |
| Depreciation and amortization | 9,900,974 | 8,281,326 | 12,130,421 | 3,870,150 | 15,002,296 | - | 49,185,167 |

## As of and for the Year Ended December 31, 2012 (As Restated)

| | Real Estate | Rental | Hotel Operations | Maintenance Services | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | | |
| Sales to external customers | P 972,826,188 | P 64,292,641 | P 131,330,139 | P 22,315,085 | P 82,114,351 | P - | P 1,272,878,404 |
| Intersegment sales | - | 43,602,685 | - | - | 21,973,904 | ( 65,576,589) | - |
| Total revenues | P 972,826,188 | P 107,895,326 | P131,330,139 | P 22,315,085 | P 104,088,255 | (P 65,576,589) | P 1,272,878,404 |
| **RESULTS** | | | | | | | |
| Segment results | P 250,049,751 | P 44,812,470 | P 36,966,283 | P 6,639,999 | P 10,809,633 | P - | P 349,278,136 |
| Unallocated expenses | | | | | | | ( 75,223,712) |
| Income from operations | | | | | | | 274,054,424 |
| Interest income | - | - | - | - | 117,341,388 | - | 117,341,388 |
| Finance costs | - | - | - | - | ( 66,739,134) | - | ( 66,739,134) |
| Equity in net losses of associates | - | - | - | - | ( 5,890,949) | - | ( 5,890,949) |
| Foreign currency gains – net | - | - | - | - | - | - | - |
| Income before tax | | | | | | | 318,765,729 |
| Tax expense | | | | | | | ( 54,395,877) |
| Net profit before non-controlling interest | | | | | | | 264,369,852 |
| Non-controlling interest share in net profit | | | | | | | ( 29,807,160) |
| Net income attributable to parent company's shareholders | | | | | | | P 294,177,012 |
| **ASSETS AND LIABILITIES** | | | | | | | |
| Segment assets | P18,466,532,053 | P 302,745,010 | P817,015,076 | P115,953,042 | P2,666,229,767 | - | P22,368,474,948 |
| Investments in and advances to associates and other related parties | | - | - | - | 1,671,024,587 | - | 1,671,024,587 |
| Unallocated assets | - | - | - | - | 578,157,774 | - | 578,157,774 |
| Total assets | P18,466,532,053 | P 302,745,010 | P817,015,076 | P115,953,042 | P4,915,412,128 | - | P24,617,657,309 |
| Total segment liabilities | P 6,220,116,257 | P 19,927,133 | P109,030,413 | P 87,981,835 | P 568,791,622 | P - | P 7,005,847,260 |
| **OTHER SEGMENT INFORMATION** | | | | | | | |
| Project and capital expenditures | P 855,581,124 | P 46,562,965 | P145,941,866 | P 25,834,722 | P 22,257,279 | P - | P 1,096,177,956 |
| Depreciation and amortization | 7,980,053 | 8,522,513 | 11,497,301 | 4,777,635 | 7,772,904 | - | 40,550,406 |

## As of and for the Three Months Ended December 31, 2011 (As Restated)

| | Real Estate | Rental | Maintenance Services | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | |
| Sales to external customers | P 156,507,125 | P 8,693,959 | P - | P 55,581,301 | P - | P 220,782,385 |
| Intersegment sales | - | 1,689,164 | - | - | ( 1,689,164) | - |
| Total revenues | P 156,507,125 | P 10,383,123 | P - | P 55,581,301 | (P 1,689,164) | P 220,782,385 |
| **RESULTS** | | | | | | |
| Segment results | P 37,759,133 | P 3,667,240 | P - | P 15,796,577 | (P 1,689,164) | P 55,534,486 |
| Unallocated expenses | | | | | | ( 12,562,968 ) |
| Income from operations | | | | | | 42,971,518 |
| Interest income | - | - | - | 31,665,977 | - | 31,665,977 |
| Finance costs | - | - | - | ( 25,137,896) | - | ( 25,137,896) |
| Equity in net losses of associates | - | - | - | ( 2,668,991) | - | ( 2,668,991) |
| Dividend income | - | - | - | 8,750 | - | 8,750 |
| Foreign currency gains – net | - | - | - | 832 | - | 832 |
| Profit before tax | | | | | | 46,840,190 |
| Tax expense | | | | | | ( 13,575,602) |
| Net profit before non-controlling interest | | | | | | 33,264,588 |
| Non-controlling interest share in net profit | | | | | | ( 9,713,472) |
| Net profit attributable to parent company's shareholders | | | | | | P 42,978,060 |
| **ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 15,903,800,645 | P 256,228,216 | P 115,762,247 | P 2,591,935,372 | P - | P18,867,726,480 |
| Investments in and advances to associates and other related parties | - | - | - | 1,555,364,957 | - | 1,555,364,957 |
| Unallocated assets | - | - | - | 559,278,681 | - | 559,278,681 |
| Total assets | P 15,903,800,645 | P 256,228,216 | P 115,762,247 | P 4,706,579,010 | P - | P20,982,370,118 |
| Total segment liabilities | P 4,308,944,496 | P 12,041,564 | P 107,550,488 | P 652,909,263 | P - | P 5,081,445,811 |
| **OTHER SEGMENT INFORMATION** | | | | | | |
| Project and capital expenditures | P 560,269,215 | P 4,537,840 | P 39,377,008 | P 15,262,953 | P - | P 619,447,016 |
| Depreciation and amortization | 1,683,573 | 2,042,361 | 1,700,293 | 1,749,518 | - | 7,175,745 |

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at the end of the reporting period:

| | 2013 | 2012 |
|---|---|---|
| Cash on hand and in banks | **P 429,284,794** | P 277,984,102 |
| Short-term placements | **4,039,887,469** | 188,245,665 |
| | **P 4,469,172,263** | P 466,229,767 |

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made between 15 to 42 days at prevailing market interest rates and earn effective interest of up to 1.85% and 3.75% per annum for 2013 and 2012, respectively.

Interest income earned from cash in banks and short-term placements is included as part of Finance Income under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 16.1).

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following as at December 31:

| | Note | 2013 | 2012 |
|---|---|---|---|
| Current: | | | |
| Installment contract and other trade receivables | | **P1,258,355,396** | P1,071,291,616 |
| Advances to contractors and suppliers | | **518,142,872** | 399,012,499 |
| Advances to officers and employees | 20.3 | **66,893,910** | 66,306,978 |
| Advances to raw landowners | | **46,845,358** | 27,264,155 |
| Others | 20.2 | **111,907,808** | 114,108,467 |
| | | **2,002,145,344** | 1,677,983,715 |
| Allowance for impairment | | **( 550,522,607)** | ( 550,522,607) |
| | | **1,451,622,737** | 1,127,461,108 |
| Non-current: | | | |
| Installment contract receivables | | **1,230,935,677** | 887,852,321 |
| Unearned discount and interest | | **( 64,449,381)** | ( 28,392,239) |
| | | **1,166,486,296** | 859,460,082 |
| | | **P2,618,109,033** | P1,986,921,190 |

Installment contract receivables represent receivables from sale of real estate and resort shares for sale and are normally collectible monthly within one to five years without interest. The titles to the real estate and resort shares sold remain with the Group until such receivables are fully collected. The installment period of sales contracts averages from three to five years.

Installment contract receivables are noninterest-bearing and are measured at amortized cost using the effective interest method based on the interest rate of comparable financial instruments in the market (see Note 26). Interest income from amortization amounted to P13.9 million, P6.7 million and P2.4 million for the periods ended December 31, 2013, 2012 and 2011, respectively. These amounts are presented as part of Finance Income under the Finance and Other Income account in the consolidated statements of comprehensive income (see Note 16.1).

Meanwhile, the related day one loss on the discounting of the non-current portion of installment contracts receivables amounting to P50.0 million for the year ended December 31, 2013 is presented as part of Finance Costs under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 16.2).

Advances to contractors and suppliers, which are noninterest-bearing and unsecured, pertain to amounts advanced to the Group's contractors and suppliers as downpayment for services to be rendered and goods to be delivered to the Group.

Advances to officers and employees are noninterest-bearing, unsecured and settled through salary deduction or liquidation.

Advances to raw landowners are non-interest bearing cash advances pertaining to amounts paid by the Group to certain raw landowners as downpayment for lots to be acquired.

Others include interest receivable from cash and short-term placements in banks and rent receivables from third parties and related parties.

All of the Group's receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized. The impairment losses recognized for the year ended December 31, 2012 (nil in 2013 and 2011) amounting to P29.1 million is presented as Impairment Losses on Trade and Other Receivables under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 16.2).

A reconciliation of the allowance for impairment at beginning and end of the reporting periods is shown below.

| | Note | **2013** | 2012 |
|---|---|---|---|
| Balance at beginning of year | | **P 550,522,607** | P 521,401,005 |
| Impairment losses during the year | 16.2 | **-** | 29,121,602 |
| Balance at end of year | | **P 550,522,607** | P 550,522,607 |

## 7. REAL ESTATE TRANSACTIONS

### *7.1 Real Estate, Golf and Resort Shares for Sale*

The composition of this account as at December 31 is shown below.

| | 2013 | 2012 |
|---|---|---|
| Real estate for sale | P 7,099,808,220 | P 5,719,268,204 |
| Golf and resort shares for sale | 2,177,560,905 | 2,171,497,637 |
| | 9,277,369,125 | 7,890,765,841 |
| Allowance for impairment | ( 88,411,502) | ( 88,411,502) |
| | P 9,188,957,623 | P 7,802,354,339 |

Real estate for sale mainly pertains to the accumulated costs incurred in developing the Group's horizontal and condominium projects and certain integrated-tourism projects, including capitalized borrowing costs amounting to P46.0 million for the year ended December 31, 2013. The said interest was incurred in relation to the advances from AGI which were obtained specifically to finance the construction of certain projects (see Note 20.4). The capitalization rate averaged 8.5% for the year ended December 31, 2013. No borrowing costs were capitalized for the periods ended December 31, 2012 and 2011.

Golf and resort shares for sale pertain to proprietary or membership shares (landowner shares and founders shares) that are of various types and costs. The cost of the landowner resort shares is based on the acquisition and development costs of the land and the project. The cost of the founders shares is based on the par value of the resort shares which is P100 per share.

There are no additional allowance for impairment recognized for the periods ended December 31, 2013, 2012 and 2011.

### *7.2 Property Development Costs*

Property development costs include on-going costs incurred by the Group for its own projects. In addition, this account also includes the costs incurred by the Group for the joint development of various projects that are treated as jointly controlled operations; there were no separate entities created by these joint venture agreements. The jointly controlled operations are undertaken under project agreements with different venture partners. The costs relating to these joint projects represent the amount of investments placed by the Group as original investor/developer or the amount assigned/transferred to the Group by associates or by related parties who were the original investors/developers in the project agreement.

In 2012, certain parcels of land with a total carrying amount of P48.3 million, which were previously classified as part of Investment Property in prior years, were reclassified to Property Development Costs in the 2012 consolidated statement of financial position (see Note 11).

As at December 31, 2013 and 2012, the Group either has no other contingent liabilities with regard to these joint ventures or that the probability of loss that may arise from contingent liabilities is remote.

### *7.3 Land for Future Development*

Land for future development pertains to acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group.

On June 6, 2011, the BOD of TLC approved the additional issuance of its common shares in exchange of certain parcels of land with total fair value of P2.4 billion owned by several parties, including portion of the land for future development of the Company and FEPI. This transaction was approved by the SEC on November 15, 2011. This transaction resulted to the decrease of the Group's effective ownership in TLC from 100% to 53% as at December 31, 2011.

### *7.4 Reserve for Property Development*

The movement of the Reserve for Property Development account is shown below.

| | **2013** | 2012 |
|---|---|---|
| Current: | | |
| Balance at beginning of year | **P 50,525,392** | P 223,537,180 |
| Additions | **43,841,562** | 26,846,810 |
| Reductions | **( 33,261,862)** | ( 199,858,598) |
| Balance at end of year | **P 61,105,092** | P 50,525,392 |
| Non-current: | | |
| Balance at beginning of year | **P 673,397,082** | P 618,493,326 |
| Additions | **118,870,741** | 103,151,533 |
| Reductions | **( 81,082,586)** | ( 48,247,777) |
| Balance at end of year | **P 711,185,237** | P 673,397,082 |

## 8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account is shown below.

| | **2013** | 2012 |
|---|---|---|
| Input VAT | **P 692,564,938** | P 644,126,316 |
| Creditable withholding tax | **235,196,737** | 187,375,009 |
| Deferred commission | **58,335,362** | 59,998,394 |
| Prepayments | **17,370,471** | 8,418,666 |
| Others | **52,390,526** | 9,082,300 |
| | **P1,055,858,034** | P 909,000,685 |

Deferred commission represents commission advanced to the agents of the Group for the sale of real estate inventory that are to be realized as incurred upon reaching certain percentage of agents' collection from Group's customers.

## 9. ADVANCES TO REAL ESTATE PROPERTY OWNERS

This account represents advances to real estate property owners and various charges in connection with several project agreements entered into by the Group. The terms of the agreements provide that the Group will undertake the improvement, subdivision and development of the properties. The agreements further stipulate that the Group and the property owners share either in the form of the developed real estate properties or upon collection of sales proceeds using certain pre-agreed sharing ratios. Collections of the advances from the said property owners are generally received upon sale of property owners' shares in the project.

The outstanding amounts, net of unearned discount and interest, at the end of the reporting periods are as follows:

| | **2013** | 2012 |
|---|---|---|
| Advances to real estate property owners | **P 1,117,253,649** | P 1,137,209,419 |
| Unearned discount and interest | **( 66,893,048)** | ( 70,796,722) |
| | **P1,050,360,601** | P 1,066,412,697 |

The net commitment for construction expenditures of the Group amounted to:

| | **2013** | 2012 |
|---|---|---|
| Total commitment for construction expenditures | **P3,850,232,106** | P 3,726,938,121 |
| Total expenditures incurred | **( 3,561,666,891)** | ( 3,369,822,021) |
| Net commitment | **P 288,565,215** | P 357,116,100 |

The Group's interests on jointly-controlled operations and projects range from 55% to 78% in 2013 and 2012. The list of the Company's jointly controlled projects (which are not jointly-controlled entities) are as follows:

- Caliraya Spring
- Forest Hills
- Kingsborough
- Monte Cielo de Peñafrancia
- Mountain Meadows
- Newport Hills
- Parklane Square
- Southwoods Peak

As at December 31, 2013 and 2012, the Group has no other contingent liabilities with regard to these joint ventures or has assessed that the probability of loss that may arise from contingent liabilities is remote.

The amortization of unearned discount and interest amounting to P3.9 million, P67.0 million and P10.1 million for the periods ended December 31, 2013, 2012 and 2011, respectively, is presented as part of Finance Income under the Finance and Other Income account in the consolidated statements of comprehensive income (see Note 16.1).

All of the Group's advances have been reviewed for indicators of impairment. Based on management's evaluation, no allowance for impairment loss needs to be recognized for the periods ended December 31, 2013, 2012 and 2011.

## 10. INVESTMENTS IN ASSOCIATES AND NON-CONTROLLING INTEREST

### *10.1 Investments in Associates*

The components of the carrying values of investments in associates accounted for under the equity method at the end of the reporting periods are as follows:

| | 2013 | 2012 |
|---|---|---|
| Acquisition costs: | | |
| NPI | **P 734,396,528** | P 734,396,528 |
| FERC | **28,000,000** | 28,000,000 |
| FENI | **10,000,003** | 10,000,003 |
| FESI | **7,808,360** | 7,808,360 |
| FERSAI | **4,000,000** | 4,000,000 |
| | **784,204,891** | 784,204,891 |
| Accumulated equity share in net losses: | | |
| Balance at beginning of year | **43,352,825** | 37,643,672 |
| Equity share in net losses for the year | **728,826** | 5,890,949 |
| Reversal due to the consolidation of OPI | **-** | ( 181,796) |
| Balance at end of year | **44,081,651** | 43,352,825 |
| | **P 740,123,240** | P 740,852,066 |

Significant influence that exists in these associates is brought about by the Group's provision of essential technical information for the development of the various projects of these investee companies.

The place of incorporation, which is also the principal place of business, of the Group's associates is summarized below.

*(a)* NPI, FESI – Renaissance Towers, Meralco Avenue, Pasig City
*(b)* FERC, FENI, FERSAI – Paragon Plaza, Reliance St., Mandaluyong City

FEPI also has 15% equity investment in MRT Development Corporation amounting to P169.9 million but the investment was derecognized when it was assessed that it is no longer recoverable.

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

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Revenues | Net Profit (Loss) |
| NPI | P 5,675,694,636 | P 1,317,006,155 | P 35,382 | (P 84,618) |
| FERC | 297,084,767 | 227,150,683 | 248,464 | ( 4,747,470) |
| FERSAI | 157,129,570 | 169,295,648 | 4,000,152 | ( 4,705,741) |
| FESI | 126,533,139 | 29,916,927 | 22,419,878 | ( 2,066,194) |
| FENI | 98,510,739 | 93,113,013 | 20,314,009 | 7,959,891 |
| | P 6,354,952,851 | P 1,836,482,426 | P 47,017,885 | (P 3,644,132) |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Revenues | Net Loss |
| NPI | P 1,329,025,655 | P 1,319,025,655 | P - | P - |
| FERC | 341,188,752 | 285,550,037 | 4,042,661 | ( 8,469,533) |
| FERSAI | 155,071,351 | 162,621,484 | 4,459,850 | ( 8,857,655) |
| FESI | 131,506,514 | 32,824,108 | 24,693,264 | ( 2,547,617) |
| FENI | 100,222,828 | 108,257,827 | 6,887,379 | ( 9,579,941) |
| | P 2,057,015,100 | P 1,908,279,111 | P 40,083,154 | (P 29,454,746) |

In January 2012, the Company obtained control over OPI; hence, was considered as a subsidiary [see Notes 1 and 3.1(c)] .

On September 4, 2012, the Company subscribed to 53.8 million shares out of the additional 598.6 million common shares issued by TLC at P1 par per share. Such additional issuance by TLC resulted in a decrease in the Company's effective ownership over TLC from 53% to 51% as at December 31, 2012.

The fair values of the associates' shares of stock are not available as of the end of the reporting periods.

Based on the assessment of the management, the investments in associates were not impaired due to the active efforts of the Group to raise funds in order to push through with the associates' projects.

### *10.2 Subsidiaries with Material Non-controlling Interest*

The Group includes subsidiaries with material NCI, with details shown below.

| Name of Subsidiary | Material NCI | Proportion of Ownership Interest and Voting Rights Held by NCI | | Profit (Loss) Allocated to NCI | | Accumulated NCI | |
|---|---|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| TLC | Various stockholders | 49% | 49% | (P 4,414,921) | (P 21,503,657) | P2,240,086,863 | P2,024,001,784 |
| FEEC | Various stockholders | 44% | 44% | 9,447,868 | 834,053 | 219,726,110 | 210,278,242 |

No dividends were paid to the NCI in 2013 and 2012.

The summarized financial information of TLC and FEEC, before intragroup eliminations, is shown below.

| | TLC | | FEEC | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Total assets | **P6,030,561,422** | P5,525,542,334 | **P 696,128,143** | P 714,666,424 |
| Total liabilities | **P1,458,955,580** | P1,394,926,449 | **P 196,750,621** | P 236,761,329 |
| Equity attributable to owners of the parent | **P2,331,518,979** | P2,106,614,101 | **P 279,651,412** | P 267,626,853 |
| Non-controlling interest | **P2,240,086,863** | P2,024,001,784 | **P 219,726,110** | P 210,278,242 |
| Revenue | **P 44,523,591** | P 13,734,389 | **P 63,620,710** | P 11,698,524 |
| Profit (loss) for the year attributable to owners of the parent | **( 4,595,122)** | ( 22,381,358) | **12,024,559** | 1,061,523 |
| Profit (loss) for the year attributable to NCI | **( 4,414,921)** | ( 21,503,657) | **9,447,868** | 834,053 |
| Profit (loss) for the year | **( 9,010,043)** | ( 43,885,015) | **21,472,427** | 1,895,576 |
| **Other comprehensive income for the year (all attributable to owners of the parent)** | **-** | - | **-** | - |
| Total comprehensive income (loss) for the year attributable to owners of the parent | **( 4,595,122)** | ( 22,381,358) | **12,024,559** | 1,061,523 |
| Total comprehensive income (loss) for the year attributable to NCI | **( 4,414,921)** | ( 21,503,657) | **9,447,868** | 834,053 |
| **Total comprehensive income (loss) for the year** | **(P 9,010,043)** | (P 43,885,015) | **P 21,472,427** | P 1,895,576 |
| Net cash used in operating activities | **(P 269,277,960)** | (P 566,062,521) | **(P 13,063,539)** | (P 11,695,703) |
| Net cash from (used in) investing activities | **497,018** | 7,117,307 | **( 1,553,188)** | 35,114,311 |
| Net cash from financing activities | **412,592,302** | 606,834,202 | **-** | - |
| Effect on foreign exchange rates | **101,963** | - | **-** | - |
| **Net cash inflow (outflow)** | **P 143,913,323** | P 47,888,988 | **(P 14,616,727)** | P 23,418,608 |

The place of incorporation, which is also the principal place of business, of TLC and FEEC is summarized below.

*(a)* TLC – Renaissance Towers, Meralco Avenue, Pasig City
*(b)* FEEC – Southwoods Ecocentrum, Brgy. Soro-Soro, Biñan, Laguna

## 11. INVESTMENT PROPERTY

The Group's investment property comprises of buildings and several parcels of land which are owned to earn rental income or for capital appreciation or for both. The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of the reporting periods are shown below.

| | Building and Improvements | Land and Land Development and Improvements | Total |
|---|---|---|---|
| December 31, 2013 | | | |
| Cost | P 389,255,408 | P 257,033,047 | P 646,288,455 |
| Accumulated depreciation and amortization | ( 239,771,976) | ( 134,409,248) | ( 374,181,224) |
| Net carrying value | **P 149,483,432** | **P 122,623,799** | **P 272,107,231** |
| December 31, 2012 | | | |
| Cost | P 488,220,155 | P 239,293,047 | P 727,513,202 |
| Accumulated depreciation and amortization | ( 235,169,651) | ( 132,479,778) | ( 367,649,429) |
| Net carrying value | P 253,050,504 | P 106,813,269 | P 359,863,773 |
| January 1, 2012 | | | |
| Cost | P 441,657,190 | P 250,960,932 | P 692,618,122 |
| Accumulated depreciation and amortization | ( 230,024,398) | ( 130,550,308) | ( 360,574,706) |
| Net carrying value | P 211,632,792 | P 120,410,624 | P 332,043,416 |

A reconciliation of the carrying amounts of investment property at the beginning and end of the reporting periods is shown below.

| | Building and Improvements | Land and Land Development and Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2013, net of accumulated depreciation and amortization | P 253,050,504 | P 106,813,269 | P 359,863,773 |
| Additions | 51,678,423 | 17,740,000 | 69,418,423 |
| Reclassification to Property and Equipment | ( 153,633,044) | - | ( 153,633,044) |
| Depreciation and amortization charges for the year | ( 1,612,451) | ( 1,929,470) | ( 3,541,921) |
| Balance at December 31, 2013, net of accumulated depreciation and amortization | **P 149,483,432** | **P 122,623,799** | **P 272,107,231** |

| | Building and Improvements | Land and Land Development and Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2012, net of accumulated depreciation and amortization | P 211,632,792 | P 120,410,624 | P 332,043,416 |
| Additions | 46,562,965 | 36,587,846 | 83,150,811 |
| Transfer to Property Development Costs | - | ( 48,255,731) | ( 48,255,731) |
| Depreciation and amortization charges for the year | ( 5,145,253) | ( 1,929,470) | ( 7,074,723 ) |
| Balance at December 31, 2012, net of accumulated depreciation and amortization | P 253,050,504 | P 106,813,269 | P 359,863,773 |

Rental revenues recognized for the periods ended December 31, 2013, 2012 and 2011 amounted to P61.8 million, P64.3 million and P8.7 million, respectively, and are presented as Rental Income in the consolidated statements of comprehensive income (see Note 20.2). Depreciation charges substantially represent the direct costs in leasing these properties. Other operating costs in leasing these properties include real property taxes and repairs and maintenance (see Note 17).

In 2013, certain building and improvements with a total carrying amount of P153.6 million was reclassified to Property and Equipment as these properties were leased to a subsidiary starting in 2013 (see Note 12).

In 2012, certain parcels of land with a total carrying amount of P48.3 million, previously classified as part of Investment Property, were transferred to Property Development Costs (see Note 7.2). The Group decided to develop these parcels of land for resale. These were initially intended to be developed by the Group as part of Investment Property for lease to third parties.

Based on management's estimate, the fair value of building and improvements amounted to P117.7 million and P114.7 million as at December 31, 2013 and 2012, respectively, as determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate of 10%. On the other hand, the fair value of land and land development and improvements amounted to P588.7 million and P503.3 million, as determined by reference to current prices for similar properties in the same location and condition as at December 31, 2013 and 2012, respectively. There has been no change to the valuation technique during the year.

Other information about the fair value measurement and disclosures related to the investment property are presented in Note 26.

## 12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of the reporting periods are shown below.

| | Land | Building | Office Furniture, Fixtures and Equipment | Transportation and Other Equipment | Building and Office Improvements | Total |
|---|---|---|---|---|---|---|
| December 31, 2013 | | | | | | |
| Cost | P 1,600,000 | P1,085,995,591 | P 100,413,106 | P 38,898,037 | P 43,219,314 | P 1,270,126,048 |
| Accumulated depreciation and amortization | - | ( 254,201,414) | ( 50,493,467) | ( 21,153,468) | ( 7,724,557) | ( 333,572,906) |
| Net carrying amount | **P 1,600,000** | **P 831,794,177** | **P 49,919,639** | **P 17,744,569** | **P 35,494,757** | **P 936,553,142** |
| December 31, 2012 | | | | | | |
| Cost | P 1,600,000 | P 825,769,380 | P 73,124,828 | P 33,845,034 | P 27,414,635 | P 961,753,877 |
| Accumulated depreciation and amortization | - | ( 225,291,163) | ( 54,464,307) | ( 16,562,439) | ( 3,653,229) | ( 299,971,138) |
| Net carrying amount | P 1,600,000 | P 600,478,217 | P 18,660,521 | P 17,282,595 | P 23,761,406 | P 661,782,739 |
| January 1, 2012 | | | | | | |
| Cost | P 1,750,000 | P 679,827,514 | P 55,526,681 | P 23,575,811 | P 3,989,860 | P 764,669,866 |
| Accumulated depreciation and amortization | - | ( 202,972,799) | ( 48,168,550) | ( 12,914,673) | ( 2,439,431) | ( 266,495,453) |
| Net carrying amount | P 1,750,000 | P 476,854,715 | P 7,358,131 | P 10,661,138 | P 1,550,429 | P 498,174,413 |

A reconciliation of the carrying amounts of property and equipment at the beginning and end the reporting periods is shown below.

| | Land | Building | Office Furniture, Fixtures and Equipment | Transportation and Other Equipment | Building and Office Improvements | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013, net of accumulated depreciation and amortization | P 1,600,000 | P 600,478,217 | P 18,660,521 | P 17,282,595 | P 23,761,406 | P 661,782,739 |
| Additions | - | 105,861,923 | 41,982,489 | 4,645,136 | 14,291,057 | 166,780,605 |
| Reclassification from Investment Property (see Note 11) | - | 153,633,044 | - | - | - | 153,633,044 |
| Depreciation and amortization charges for the year | - | ( 28,179,007) | ( 10,723,371) | ( 4,183,162) | ( 2,557,706) | ( 45,643,246) |
| Balance at December 31, 2013, net of accumulated depreciation and amortization | **P 1,600,000** | **P 831,794,177** | **P 49,919,639** | **P 17,744,569** | **P 35,494,757** | **P 936,553,142** |
| Balance at January 1, 2012, net of accumulated depreciation and amortization | P 1,750,000 | P 476,854,715 | P 7,358,131 | P 10,661,138 | P 1,550,429 | P 498,174,413 |
| Additions | - | 145,941,866 | 18,256,550 | 11,220,742 | 23,438,596 | 198,857,754 |
| Disposals | ( 150,000) | - | ( 658,404) | ( 951,519) | ( 13,822) | ( 1,773,745) |
| Depreciation and amortization charges for the year | - | ( 22,318,364) | ( 6,295,756) | ( 3,647,766) | ( 1,213,797) | ( 33,475,683) |
| Balance at December 31, 2012, net of accumulated depreciation and amortization | P 1,600,000 | P 600,478,217 | P 18,660,521 | P 17,282,595 | P 23,761,406 | P 661,782,739 |

The Group's fully depreciated assets that are still being used in operations has total cost of P215.4 million and P210.2 million as at December 31, 2013 and 2012, respectively.

## 13. TRADE AND OTHER PAYABLES

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Trade payables | **P 1,217,184,179** | P 1,325,109,697 |
| Liabilities for land acquisition | **586,320,028** | 575,300,558 |
| Accrued expenses | **103,507,223** | 91,023,187 |
| Others | **55,250,950** | 14,985,375 |
| | **P1,962,262,380** | P 2,006,418,817 |

Liabilities for land acquisition represent the unpaid portion of land for future development acquired by the Group.

Accrued expenses represent accruals for salaries and wages, utilities, professional fees, outside services and other expenses incurred in the normal operations of the Group.

Other payables consist primarily of unearned rentals and payables to government and other regulatory agencies.

## 14. DUE TO JOINT VENTURE PARTNERS

This account represents the share of joint venture (JV) partners in the proceeds from the sale of certain projects in accordance with various JV agreements entered into by the Group.

The details of the account are as follows:

| | 2013 | 2012 |
|---|---|---|
| Due to golf share partners and lot owners | **P 324,291,911** | P 324,410,959 |
| Deferred interest expense | **( 90,672,491)** | ( 110,013,583) |
| | **P 233,619,420** | P 214,397,376 |

The amortization of deferred interest amounting to P19.3 million, P19.8 million and P5.0 million for the periods ended December 31, 2013, 2012 and 2011, respectively, is presented as part of Finance Costs under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 16.2).

## 15. REDEEMABLE PREFERRED SHARES

On September 4, 2012, the TLC's BOD approved the additional subscriptions of 1,258.0 million preferred shares out of TLC's authorized capital stock as partial payment for certain parcels of land with total fair value of P1,338.2 million. The SEC approved the issuance through exchange of certain parcels of land on April 17, 2013.

Generally non-voting, these preferred shares earn dividends at a fixed annual rate of 2.5% subject to the existence of TLC's unrestricted retained earnings. The accrued dividends on these preferred shares amounting to P31.2 million and P10.5 million as at December 31, 2013 and 2012, respectively, is presented as part of Other Non-current Liabilities account in the consolidated statements of financial position. The related interest expense recognized for the years ended December 31, 2013 and 2012 amounting to P20.7 million and P10.5 million, respectively, is presented as part of Finance Costs under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 16.2).

The preferred shares shall have a maturity of 10 years and shall be redeemed on every anniversary date beginning on the sixth anniversary date until expiration of the ten-year period. Only 1/5 of the aggregate face value of preferred shares may be redeemed per year during such redemption period, with all remaining shares to be redeemed on the 10th anniversary date.

The preferred shares are considered as financial liabilities. Accordingly, the redeemable preferred shares are recognized at fair value on the date of issuance and are classified as a non-current liability in the consolidated statements of financial position. The fair values of the redeemable preferred shares on the date of issuance approximate their par value.

## 16. FINANCE INCOME AND FINANCE COSTS

### *16.1 Finance and Other Income*

Presented below are the details of this account.

| | Notes | | **December 31, 2013 (One Year)** | | December 31, 2012 (One Year) | | December 31, 2011 (Three Months) |
|---|---|---|---|---|---|---|---|
| Finance income | 5, 6, 9 | **P** | **75,746,588** | P | 118,717,108 | P | 31,665,977 |
| Gain on reversal of liabilities | | | **40,487,746** | | - | | - |
| Gain on refunds | | | **4,100,270** | | 30,645,216 | | - |
| Foreign currency gains – net | | | **775,524** | | - | | 832 |
| Miscellaneous | | | **41,194,101** | | 50,093,415 | | 40,197,776 |
| | | **P** | **162,304,229** | P | 199,455,739 | P | 71,864,585 |

In 2013, certain long outstanding payables booked under Trade Payables were reversed by the Group based on management's assessment that counterparties will no longer demand payment from the Group.

A gain or loss on refund arises when the amount to settle a refund claimed by a customer is lower or higher than the total amount previously collected from the said customer.

Miscellaneous income includes forfeiture of reservation fees from customers.

In 2010, FEPI assumed certain liabilities of Fil-Estate Management, Inc. (FEMI) to Cameron Granville Asset Management, Inc. (CGAMI). In 2011, FEPI and CGAMI agreed that certain lots in Boracay owned by FEPI shall be sold to settle the advances amounting to P96.0 million. The proceeds from the sale amounting to P56.0 million were then used to settle the advances. CGAMI agreed that such payment will be considered as full settlement of the advances and that CGAMI will no longer collect the balance of P40.0 million, which amount is shown above as part of Miscellaneous income under Finance and Other Income account in the consolidated statement of comprehensive income for the period ended December 31, 2011.

### *16.2 Finance Costs and Other Charges*

Presented below are the details of this account.

| | Notes | **December 31, 2013 (One Year)** | December 31, 2012 (As Restated – see Note 2.2) (One Year) | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|---|
| Finance costs | 14, 20.4, 15, 18.2 | **P 55,880,211** | P 77,222,467 | P 23,113,961 |
| Day one loss on non-current portion of installment contracts receivables | 6 | **49,995,897** | - | - |
| Impairment losses on trade and other receivables | 6 | **-** | 29,121,602 | - |
| Miscellaneous | | **450,643** | - | 2,411,923 |
| | | **P 106,326,751** | P 106,344,069 | P 25,525,884 |

## 17. OPERATING EXPENSE BY NATURE

Presented below are the details of this account.

| | Notes | | December 31, 2013 (One Year) | | December 31, 2012 (As Restated – see Note 2.2) (One Year) | | December 31, 2011 (As Restated see Note 2.2) (Three Months) |
|---|---|---|---|---|---|---|---|
| Cost of real estate sales | | P | **368,261,802** | P | 264,521,139 | P | 23,865,753 |
| Cost of hotel operations | | | **141,842,485** | | 42,217,660 | | 3,647,360 |
| Salaries and employee benefits | 18.1, 21.2 | | **215,449,285** | | 151,931,687 | | 77,281,013 |
| Taxes and licenses | | | **68,039,908** | | 65,763,025 | | 9,987,884 |
| Depreciation and amortization | 11, 12 | | **49,185,167** | | 40,550,406 | | 7,175,745 |
| Commissions | 20.5 | | **32,481,674** | | 20,891,492 | | 1,904,048 |
| Professional fees and outside services | | | **26,124,359** | | 13,934,111 | | 9,567,623 |
| Rental | 20.2 | | **24,134,524** | | 4,694,971 | | 1,588,289 |
| Advertising and promotions | | | **7,645,475** | | 1,351,427 | | 3,985,533 |
| Utilities and supplies | | | **6,393,179** | | 9,269,476 | | 2,859,581 |
| Transportation | | | **5,490,127** | | 7,250,417 | | 2,630,326 |
| Representation | | | **1,288,151** | | 1,732,732 | | 609,241 |
| Loss on refund | | | **784,969** | | 5,581,395 | | 11,943,889 |
| Gas and oil | | | **668,755** | | 1,773,756 | | 723,553 |
| Repairs and Maintenance | 11 | | **502,172** | | 1,363,124 | | 1,467,470 |
| Miscellaneous | | | **42,581,927** | | 42,614,186 | | 10,169,747 |
| | | **P** | **990,873,959** | P | 675,441,004 | P | 169,407,055 |

Miscellaneous expenses mainly include insurance, membership dues, communication expense, and cost of materials and overhead incurred in relation to the maintenance of the Group's golf course.

These expenses are classified in the consolidated statements of comprehensive income as follows:

| | | December 31, 2013 (One Year) | | December 31, 2012 (As Restated – see Note 2.2) (One Year) | | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|---|---|---|
| Cost of real estate sales | P | **368,261,802** | P | 264,521,139 | P | 23,865,753 |
| Cost of services | | **100,984,952** | | 30,155,257 | | 9,898,334 |
| Cost of hotel operations | | **141,842,485** | | 42,217,660 | | 3,647,360 |
| Operating expenses | | **379,784,720** | | 338,546,948 | | 131,995,608 |
| | **P** | **990,873,959** | P | 675,441,004 | P | 169,407,055 |

## 18. EMPLOYEE BENEFITS

### *18.1 Salaries and Employee Benefits*

Expenses recognized for salaries and employee benefits are presented below (see Note 17).

| | Notes | December 31, 2013 (One Year) | December 31, 2012 (As Restated – see Note 2.2) (One Year) | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|---|
| Short-term benefits | | **P 179,124,645** | P 111,165,572 | P 27,443,343 |
| Share-based employee compensation | 21.2 | **32,562,550** | 38,515,271 | |
| Post-employment defined benefits | 18.2 | **3,762,090** | 2,250,844 | 100,447 |
| Termination benefits | | **-** | - | 49,737,223 |
| | 17 | **P 215,449,285** | P 151,931,687 | P 77,281,013 |

### *18.2 Post-employment Defined Benefit Plan*

*(a) Characteristics of the Defined Benefit Plan*

The Group has an unfunded, non-contributory defined benefit plan covering all regular employees. The plan provides for lump-sum benefits equivalent to 85% to 150% of the employee's monthly salary for every year of service depending on the number of years of service. The normal retirement age is 60 years old and applicable upon completion of five years of faithful and continuous service to the Group. However, an employee who attains the age of 50 with the completion of no less than 10 years of service or has completed 15 years of service and opts for an early retirement is likewise entitled to the same benefits. Actuarial valuations are made annually to update the retirement benefit costs.

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

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.2(a)(ii).

The amount of retirement benefit obligation recognized in the statements of financial position amounted to P41,467,601 and P35,293,967 as of December 31, 2013 and 2012, respectively.

The movements in present value of the retirement benefit obligation are as follows:

| | | 2013 | | 2012 (As Restated – see Note 2.2) |
|---|---|---|---|---|
| Balance at beginning of year | P | 35,293,967 | P | 44,115,592 |
| Current service cost | | 3,762,090 | | 2,250,844 |
| Interest expense | | 2,017,181 | | 3,162,387 |
| Actuarial losses (gains) arising from: | | | | |
| Experience adjustments | | 8,497,002 | ( | 14,234,856) |
| Changes in financial assumptions | | 2,240,839 | | - |
| Benefits paid | ( | 10,343,478) | | - |
| Balance at end of year | P | 41,467,601 | P | 35,293,967 |

The amounts of post-employment benefit recognized in the consolidated statements of comprehensive income are as follows:

| | | December 31, 2013 (One Year) | | December 31, 2012 (As Restated – see Note 2.2) (One Year) | | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|---|---|---|
| *Reported in profit or loss:* | | | | | | |
| Current service cost | P | 3,762,090 | P | 2,250,844 | P | 100,447 |
| Interest cost | | 2,017,181 | | 3,162,387 | | 387,988 |
| | P | 5,779,271 | P | 5,413,231 | P | 488,435 |
| *Reported in other comprehensive income:* | | | | | | |
| Actuarial losses (gains) arising from: | | | | | | |
| Experience adjustments | P | 8,497,002 | (P | 14,234,856) | P | - |
| Changes in financial assumptions | | 2,240,839 | | - | | - |
| | P | 10,737,841 | (P | 14,234,856) | P | - |

The amounts of current service cost incurred are presented as part of Salaries and Employee Benefits under Operating Expenses in the consolidated statements of comprehensive income (see Note 17). The amounts of interest expense related to the retirement benefit obligation are presented as part of Finance Costs under Finance Costs and Other Charges in the consolidated statements of comprehensive income (see Note 16.2).

The amount recognized in other comprehensive income is included as an item that will not be reclassified subsequently to profit or loss.

In determining the amount of retirement benefit obligation, the following actuarial assumptions were used for the reporting periods:

| | **December 31, 2013 (One Year)** | December 31, 2012 (As Restated – see Note 2.2) (One Year) | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|
| Discount rates | **4.94%** | 6.14% | 7.30% |
| Expected rate of salary increase | **3.00%** | 3.00% | 3.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average expected remaining working life of employees retiring at the age of 60 is 22 for both males and females. 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 bond government bonds with terms to maturity approximating to the terms of the post-employment 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 and longevity and salary risks.

*(i) Interest Risk*

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

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation 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.

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described below.

*(i) Sensitivity Analysis*

| | Impact on Retirement Benefit Obligation | | |
|---|---|---|---|
| | Change in Assumptions | Increase in Assumptions | Decrease in Assumptions |
| Discount rate | +/- 0.5% | (P 1,209,277) | P 1,448,662 |
| Salary increase rate | +/ 1.0% | 3,118,079 | ( 2,183,689) |

The 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 defined benefit obligation 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 sensitivity analysis, the present value of the defined benefit obligation 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 defined benefit obligation recognized in the statements of financial position.

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

(ii) *Funding Arrangements and Expected Contributions*

The plan is currently unfunded as at December 31, 2013. While there is no minimum funding requirement in the country, the non-funding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire.

As at December 31, 2013, the Group is yet to determine how much and when to fund the post-employment benefit plan.

The maturity profile of undiscounted expected benefit payments from the plan as at December 31, 2013 is as follows:

| | |
|---|---|
| Within one year | P 23,452,201 |
| More than one year to five years | 3,846,845 |
| More than five years to ten years | 9,973,256 |
| More than ten years to 15 years | 30,091,911 |
| More than 15 years to 20 years | 23,162,428 |
| More than 20 years | 635,455,115 |
| | P 725,981,756 |

## 19. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in the consolidated statements of comprehensive income are as follows:

| | December 31, 2013 (One Year) | December 31, 2012 (As Restated – see Note 2.2) (One Year) | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|
| *Reported in profit or loss:* | | | |
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 30% | P **30,834,019** | P 9,709,182 | P - |
| Minimum corporate income tax (MCIT) at 2% | **8,226,432** | 5,633,157 | 5,889,369 |
| Final tax at 20% and 7.5% | **6,755,574** | 3,449,357 | 2,910,923 |
| | **45,816,025** | 18,791,696 | 8,800,292 |
| MCIT applied during the year | **( 738,766)** | ( 8,981,029) | - |
| Deferred tax expense relating to origination and reversal of temporary differences | **67,287,341** | 44,585,210 | 4,775,310 |
| | **P 112,364,600** | P 54,395,877 | P 13,575,602 |
| *Reported in other comprehensive income –* | | | |
| Deferred tax expense (income) relating to remeasurements of retirement benefit plan | **P 3,221,352** | (P 4,270,457) | P - |

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

| | December 31, 2013 (One Year) | December 31, 2012 (As Restated – see Note 2.2) (One Year) | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|
| Tax on pretax profit at 30% | P **135,969,465** | P 95,629,719 | P 14,052,057 |
| Adjustments for income subjected to lower income tax rates | **( 3,382,477)** | ( 1,490,927) | ( 1,455,507) |
| Tax effects of: | | | |
| Income tax benefit from previously unrecognized deferred tax assets | **( 43,222,845)** | ( 66,083,897) | - |
| Non-deductible expenses | **29,881,733** | 15,585,782 | 370,303 |
| Non-taxable income | **( 12,520,904)** | ( 23,618,111) | ( 31,678,465) |
| Non-deductible interest expense | **3,090,624** | 947,317 | 293,606 |
| Unrecognized deferred tax assets | **2,549,004** | 19,885,418 | 27,218,298 |
| Expired deferred tax assets | **-** | 13,540,576 | 4,775,310 |
| | **P 112,364,600** | P 54,395,877 | P 13,575,602 |

The Group's net deferred tax liabilities relate to the following as at December 31:

| | 2013 | 2012 (As Restated – see Note 2.2) |
|---|---|---|
| Deferred tax liabilities: | | |
| Unrealized gross profit on real estate sales | P 368,021,308 | P 327,319,448 |
| Capitalized interest | 50,852,644 | 167,901,377 |
| Deferred commission | 17,500,607 | 17,768,660 |
| Rental income | 7,581,985 | - |
| Unrealized foreign exchange gains | 202,067 | - |
| | 444,158,611 | 512,989,485 |
| Deferred tax assets: | | |
| Allowance for impairment | ( 145,635,112) | ( 145,635,112) |
| Net-operating loss carry-over (NOLCO) | ( 41,920,808) | ( 179,396,467) |
| MCIT | ( 22,358,192) | ( 14,870,526) |
| Share-based employee compensation | ( 21,323,346) | ( 11,554,581) |
| Retirement benefit obligation | ( 12,136,157) | ( 10,588,190) |
| Gross profit per tax | - | ( 17,446,954) |
| | ( 243,373,615) | ( 379,491,830) |
| | P 200,784,996 | P 133,497,655 |

The details of NOLCO, which can be claimed as deduction from the respective entities' future taxable income within three years from the year the loss was incurred, are shown below.

| Period Incurred | Original Amount | Applied During the Period | Expired During the Period | Remaining Balance | Valid Until |
|---|---|---|---|---|---|
| 2013 (one year) | P 56,698,468 | P - | P - | P 56,698,468 | 2016 |
| 2012 (one year) | 49,589,710 | - | - | 49,589,710 | 2015 |
| 2011 (3 months) | 21,226,831 | - | - | 21,226,831 | 2014 |
| 2011 (one year) | 12,221,017 | - | - | 12,221,017 | 2014 |
| | P 139,736,026 | P - | P - | P 139,736,026 | |

Majority of the entities within the Group are subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations. The total of the MCIT paid by certain subsidiaries, which can be applied as deduction from their respective future RCIT payable within three years from the year the MCIT was incurred, are shown below.

| Period Incurred | Original Amount | Applied During the Period | Expired During the Period | Remaining Balance | Valid Until |
|---|---|---|---|---|---|
| 2013 (one year) | P 8,226,432 | P - | P - | P 8,226,432 | 2016 |
| 2012 (one year) | 5,439,088 | - | - | 5,439,088 | 2015 |
| 2011 (3 months) | 3,997,268 | - | - | 3,997,268 | 2014 |
| 2011 (one year) | 5,434,170 | 738,766 | - | 4,695,404 | 2014 |
| | P 23,096,958 | P 738,766 | P - | P 22,358,192 | |

Certain subsidiaries within the Group did not recognize the deferred tax assets on their NOLCO and MCIT in accordance with relevant accounting standards.

Management has assessed that for other entities within the Group, the net losses incurred as well as the related NOLCO, can be recovered through their respective future operations.

The Group opted to continue claiming itemized deductions for the periods ended December 31, 2013, 2012 and 2011 in computing for its income tax due.

## 20. RELATED PARTY TRANSACTIONS

The Group's related parties include its parent company, associates, stockholder, related party under common ownership, the Company's key management personnel and others as described below.

### *20.1 Summary of Related Party Transactions*

The summary of the Company's transactions with its related parties for the periods ended December 31, 2013, 2012 and 2011, and the related outstanding balances as at December 31, 2013 and 2012 is as follows:

| Related Party Category | Note | Amount of Transactions<br>December 31, 2013 (One Year) | December 31, 2012 (One Year) | December 31, 2011 (Three Months) | Outstanding Balances<br>2013 | 2012 |
|---|---|---|---|---|---|---|
| **Parent company –** | | | | | | |
| Availment of advances – net of interest and repayments | 20.4 | (P 482,414,086) | P 482,414,086 | P - | P - | (P 482,414,086) |
| **Associates:** | | | | | | |
| Granting of cash advances – net of collections | 20.3 | ( 97,216,199) | ( 11,372,971 ) | 41,761,838 | 149,076,863 | 246,293,062 |
| Rental income | 20.2 | 747,495 | 1,174,635 | 661,263 | 603,436 | 580,028 |
| **Stockholder:** | | | | | | |
| Availment of advances – net of interest and repayments | 20.4 | ( 43,122,783) | - | - | ( 86,974,697) | ( 167,394,106) |
| Rental expense | 20.2 | 6,345,773 | 5,320,328 | - | - | - |
| Commission expense | 20.5 | 8,001,032 | 5,304,681 | - | - | - |
| **Related Party Under Common Ownership** | | | | | | |
| Availment of advances – net of interest and repayments | 20.4 | ( 89,939,150) | ( 89,939,150) | 374,250,931 | - | ( 89,939,150) |
| **Other investees of shareholders:** | | | | | | |
| Granting of cash advances – net of collections | 20.3 | 95,951,354 | 135,866,979 | 22,163,849 | 779,830,813 | 683,879,459 |
| Availment of advances – net of repayments | 20.4 | ( 1,811,015) | ( 9,047,240 ) | 3,429,297 | ( 427,837,361) | ( 306,106,184) |
| Rental income | 20.2 | 1,443,364 | 134,018 | 473,184 | 171,104 | 948,580 |

### *20.2 Rental Income and Rental Expense*

The Company leases its investment property to certain related parties with rental payments mutually agreed before commencement of the lease. The leases have terms ranging from one to twenty-five years, with renewal options, and include annual escalation rates of 3% to 10%. The revenues earned from these related parties are included as part of Rental Income in the consolidated statements of comprehensive income (see Note 11). The related outstanding receivables from these transactions are presented as part of Others under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The related receivables from these transactions are short-term, unsecured and noninterest-bearing. These are also generally settled in cash upon demand. No impairment loss was provided in 2013, 2012 and 2011 since management believes that the outstanding receivables are fully recoverable.

In 2012, the Company entered into several operating lease agreements as a lessee with a stockholder, covering showrooms for advertising and promotional use. The leases have terms ranging from one to five years with renewal options, and include annual escalation rates of 5% to 10%. Rental expense incurred in relation to these leases is presented as part of Rental under Operating Expenses account in the consolidated statements of comprehensive income (see Note 17).

The related payables, if any, are included as part of Trade Payables under the Trade and Other Payables account in the consolidated statements of financial position. These are short-term, unsecured and noninterest-bearing. These are also generally settled in cash upon demand.

### *20.3 Advances to Related Parties*

The Group grants advances to its associates and other related parties for working capital purposes. These advances to related parties are unsecured, noninterest-bearing and repayable in cash upon demand. The balances of these advances, shown as Advances to Related Parties account in the consolidated statements of financial position as at December 31, are as follows:

| | **2013** | 2012 |
|---|---|---|
| Associates | **P 149,076,863** | P 246,293,062 |
| Other investee companies of shareholders | **779,830,813** | 683,879,459 |
| | **P 928,907,676** | P 930,172,521 |

A summary of transactions with these related parties are as follows:

| | **Amount of Transactions** | | |
|---|---|---|---|
| | **December 31, 2013 (One Year)** | December 31, 2012 (One Year) | December 31, 2011 (Three Months) |
| Associates: | | | |
| Balance at beginning of period | **P 246,293,062** | P 257,666,033 | P 215,904,195 |
| Cash advances granted | **1,749,279** | 103,266,123 | 41,761,838 |
| Collections | **( 98,965,478)** | ( 114,639,094) | - |
| Balance at end of period | **P 149,076,863** | P 246,293,062 | P 257,666,033 |
| Other investee companies of shareholders: | | | |
| Balance at beginning of period | **P 683,879,459** | P 548,012,480 | P 525,848,631 |
| Cash advances granted | **107,923,097** | 200,382,870 | 219,174,980 |
| Collections | **( 11,971,743)** | ( 64,515,891) | ( 197,011,131) |
| Balance at end of period | **P 779,830,813** | P 683,879,459 | P 548,012,480 |

As at December 31, 2013 and 2012, based on management's assessment, the outstanding balances of Advances to Related Parties are not impaired, hence, no allowance for impairment loss was recognized.

The Group also has short-term, unsecured and noninterest-bearing outstanding advances to officers and employees which are presented as Advances to Officers and Employees under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6). These are settled through salary deduction or liquidation.

As at December 31, 2013 and 2012, based on management's assessment, the outstanding balances of Advances to Officers and Employees are not impaired, hence, no allowance for impairment losses was recognized.

### *20.4 Advances from Related Parties*

The Group obtains advances from its parent company and other related parties for working capital purposes. These advances are unsecured and are repayable in cash upon demand. Also, except for the advances from AGI and Megaworld Corporation (Megaworld), a current stockholder which was previously classified as a related party under common ownership, these advances are non-interest bearing.

The balances of these advances, shown as Advances from Related Parties account in the consolidated statements of financial position as at the end of the reporting periods, are as follows:

| | **2013** | 2012 |
|---|---|---|
| Stockholder | **P 86,974,697** | P - |
| Parent company | **-** | 482,414,086 |
| Related party under common ownership | **-** | 257,333,256 |
| Other investee companies of shareholders | **427,837,361** | 306,106,184 |
| | **P 514,812,058** | P1,045,853,526 |

A summary of transactions with these related parties are as follows:

| | Amount of Transactions | | |
|---|---|---|---|
| | **December 31, 2013 (One Year)** | December 31, 2012 (One Year) | December 31, 2011 (Three Months) |
| Stockholder: | | | |
| Balance at beginning of period | **P -** | P - | P - |
| Cash advances obtained | **145,065,168** | - | - |
| Repayments | **( 115,140,804)** | - | - |
| Advances from a stockholder previously classified as a related party under common ownership | **43,851,914** | - | - |
| Interest expense | **13,198,419** | - | - |
| Balance at end of period | **P 86,974,697** | P - | P - |
| Parent company: | | | |
| Balance at beginning of period | **P 482,414,086** | P - | P - |
| Cash advances obtained | **100,000,000** | 479,765,080 | - |
| Interest expense | **45,985,078** | 2,649,006 | - |
| Repayments | **( 628,399,164)** | - | - |
| Balance at end of period | **P -** | P 482,414,086 | P - |

| | Amount of Transactions | | |
|---|---|---|---|
| | **December 31, 2013 (One Year)** | December 31, 2012 (One Year) | December 31, 2011 (Three Months) |
| Related party under common ownership: | | | |
| Balance at beginning of period | **P 257,333,256** | P 401,966,163 | P 27,715,232 |
| Advances from an investee company previously classified as a related party under common ownership | **( 123,542,192)** | - | - |
| Advances from a stockholder previously classified as a related party under common ownership | **( 43,851,914)** | - | - |
| Repayments | **( 89,939,150)** | ( 234,572,057) | |
| Cash advances obtained | **-** | 83,273,493 | 374,250,931 |
| Interest expense | **-** | 6,665,657 | - |
| Balance at end of period | **P -** | P 257,333,256 | P 401,966,163 |
| Other investee companies of shareholders: | | | |
| Balance at beginning of period | **P 306,106,184** | P 315,153,424 | P 311,724,127 |
| Advances from an investee company previously classified as a related party under common ownership | **123,542,192** | - | - |
| Cash advances obtained | **32,773** | 60,127,397 | 288,366,958 |
| Repayments | **( 1,843,788)** | ( 69,174,637) | ( 284,937,661) |
| Balance at end of period | **P 427,837,361** | P 306,106,184 | P 315,153,424 |

The advances from AGI and a portion of the advances from Megaworld bear annual interest of 8.5% and 6.0%, respectively. The interest expense incurred in 2013 related to the advances from AGI amounting to P46.0 million was capitalized as part of Real Estate, Golf and Resort Shares for Sale account as the commencement of the expenditures on the related projects began only in 2013 (see Note 7.1). The interest expense incurred in 2012 from the advances from AGI and the interest expense incurred in 2013, 2012 and 2011 from the advances from Megaworld are presented as part of Finance Costs under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 16.2).

The related unpaid interest of these advances amounting to P11.0 million and P2.2 million as at December 31, 2013 and 2012, respectively, is included as part of the Advances from Related Parties account in the consolidated statements of financial position.

### *20.5 Commissions*

In the normal course of business, the Group pays commissions to a stockholder for marketing services rendered with the purpose of increasing sales from its on-going projects. The commissions are based on pre-agreed rates and are payable once a certain percentage of the contract price has been collected. Commissions incurred in 2013 and 2012 are presented as part of Commissions under Operating Expenses in the consolidated statements of comprehensive income (see Note 17). No commission expense relating to this agreement was incurred in 2011.

The related payables, if any, is included as part of Trade Payables under the Trade and Other Payables account in the consolidated statements of financial position.

### *20.6 Key Management Personnel Compensation*

The Group's key management personnel compensation includes the following:

| | | December 31, 2013 (One Year) | | December 31, 2012 (As Restated – see Note 2.2) (One Year) | | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|---|---|---|
| Share based employee compensation | P | 32,562,550 | P | 38,515,271 | P | - |
| Short-term benefits | | 13,558,221 | | 10,351,675 | | 2,885,216 |
| Post-employment defined benefits | | 1,379,731 | | 743,814 | | 100,447 |
| | P | 47,500,502 | P | 49,610,760 | P | 2,985,663 |

## 21. EQUITY

### *21.1 Capital Stock*

Capital stock consists of:

| | Shares | | | Amount | | |
|---|---|---|---|---|---|---|
| | **December 31, 2013** | December 31, 2012 | December 31, 2011 | **December 31, 2013** | December 31, 2012 | December 31, 2011 |
| Common shares – P1 par value | | | | | | |
| Authorized | **20,000,000,000** | 10,000,000,000 | 10,000,000,000 | **P20,000,000,000** | P 10,000,000,000 | P 10,000,000,000 |
| Issued and outstanding: | | | | | | |
| Balance at beginning of period | **8,486,000,000** | 8,356,000,000 | 8,356,000,000 | **8,486,000,000** | 8,356,000,000 | 8,356,000,000 |
| Issuances during the period | **2,500,000,000** | 130,000,000 | - | **2,500,000,000** | 130,000,000 | - |
| Balance at end of period | **10,986,000,000** | 8,486,000,000 | 8,356,000,000 | **P10,986,000,000** | P 8,486,000,000 | P 8,356,000,000 |

On September 23, 2011, the Company's stockholders approved the increase in the Company's authorized capital stock from P10.0 billion divided into 10.0 billion shares to P20.0 billion divided into 20.0 billion shares, both with P1 par value. The Company's application for such increase was approved by the SEC on July 24, 2013.

Of the said increase in the authorized capital stock of the Company, a total of 2.5 billion shares or 25% has been subscribed by Megaworld at a price of P2.26 per share or a total of P5.65 billion. The subscription was approved by the BOD on June 21, 2013. The total subscription price was paid in full on August 14, 2013.

As a result of this subscription, Megaworld obtained 22.8% direct ownership interest in the Company.

On February 8, 2007, as part of the consideration for the private placement subscriptions made by Lim Asia Multi-Strategy Fund, Inc. (LAMSFI) and LIM Asia Alternative Real Estate Fund (LAAREF) and their agreement to provide a financial facility for ongoing and future real estate projects, the Company's BOD authorized the issuance of 136.0 million warrants resulting to 136.0 million unissued shares of common stock of the Company with an exercise price of P1 per share for which an exemptive relief was sought. The SEC issued a resolution dated February 16, 2007 confirming that issuance of the 136.0 million warrants is exempt from registration requirements of the Securities Regulation Code. There is no value assigned to the warrants since the interest rate of the loan granted is higher than the prevailing market rates at the time the loans were availed.

In September 2011, LAMSFI, a holder of the Company's warrants, converted 6.0 million of its holdings into 6.0 million common shares of the Company at an exercise price of P1.00 per share.

On May 18, 2012, LAMSFI converted another 62.0 million warrants into 62.0 million common shares of the Company at an exercise price of P1.00 per share.

On July 30, 2012, LAAREF converted 68.0 million warrants into 68.0 million common shares of the Company at an exercise price of P1.00 per share.

There are no outstanding warrants as at December 31, 2013 and 2012.

On November 23, 1995, the SEC approved the listing of the Company's common shares totaling 150 million. The shares were initially issued at an offer price of P19.50 per common share. As at December 31, 2013 and 2012, there are 4,413 and 4,484 holders of the listed shares, respectively, which closed at P1.35 per share and P1.96 per share, respectively.

The Company also made additional listings of 2.2 billion, 5.0 billion and 2.5 billion shares on January 11, 2007, January 20, 2011 and August 14, 2013, respectively.

### *21.2 Employee Stock Option Plan*

On September 23, 2011, the BOD of the Company approved an Executive Stock Option Plan (the ESOP) for its key executive officers. This was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the ESOP is to enable the key executives and senior officers of the Company, who are largely responsible for its further growth and development, to obtain an ownership interest in the Company, thereby encouraging long-term commitment to the Company. The ESOP is being administered by the Executive Compensation Committee of the BOD.

Under the ESOP, the Company shall initially reserve for exercise of stock options up to 500.0 million common shares of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within 10 years from the adoption of the ESOP and may be exercised within seven years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for twelve months immediately preceding the date of grant. The options shall vest within three years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three-year period. The Company shall receive cash for the stock options.

Pursuant to this ESOP, on February 16, 2012, the Company granted the option to its key company executives to subscribe to 100.0 million shares of the Company, at an exercise price of P1.93. An option holder may exercise in whole or in part his vested option provided, that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle. On February 16, 2013, a total of 16.4 million options have vested but none of these have been exercised yet by any of the option holders as at December 31, 2013.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

| | |
|---|---|
| Grant date | February 16, 2012 |
| Vesting period ends | February 15, 2015 |
| Option life | Seven years |
| Share price at grant date | P 2.10 |
| Exercise price at grant date | P 1.93 |
| Average fair value at grant date | P 2.27 |
| Average standard deviation of share price returns | 57.10% |
| Average risk-free investment rate | 2.46% |

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time consistent with the option life.

A total of P32.6 million and P38.5 million share-based employee compensation is recognized for the years ended December 31, 2013 and 2012, respectively, and is included as part of Salaries and employee benefits under Operating Expenses in the consolidated statements of comprehensive income (see Note 17), and is credited to Retained Earnings in the equity section of the consolidated statements of financial position.

The share-based employee compensation incurred in 2012 which was previously presented as a separate component of equity in prior year consolidated financial statements was reclassified to the Retained Earnings account, as allowed under PFRS.

## 22. EARNINGS PER SHARE

Earnings per share amounts were computed as follows:

| | **December 31, 2013 (One Year)** | December 31, 2012 (As Restated – see Note 2.2) (One Year) | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|
| Basic: | | | |
| Net profit attributable to owners of the parent company | **P 321,398,421** | P 294,177,012 | P 42,978,060 |
| Divided by weighted number of outstanding common shares | **9,423,500,000** | 8,420,500,000 | 8,356,000,000 |
| | **P 0.034** | P 0.035 | P 0.005 |

| | | **December 31, 2013 (One Year)** | | December 31, 2012 (As Restated – see Note 2.2) (One Year) | | December 31, 2011 (As Restated – see Note 2.2) (Three Months) |
|---|---|---|---|---|---|---|
| Diluted: | | | | | | |
| Net profit attributable to owners of the parent company | **P** | **321,398,421** | P | 294,177,012 | P | 42,978,060 |
| Divided by weighted number of outstanding common shares | | **9,437,838,564** | | 8,420,500,000 | | 8,486,000,000 |
| | **P** | **0.034** | P | 0.035 | P | 0.005 |

In relation to the approved ESOP for key executive officers, a total of 16.4 million options have vested in 2013 (see Note 21.2). However, none of the vested options have been exercised yet by any of the option holders; hence, these are considered as potentially dilutive shares as at December 31, 2013.

In 2012, there are no potentially dilutive shares since there were no options that have vested in that year and all of the Company's warrants were exercised in 2012 and 2011 (see Note 21.1).

## 23. COMMITMENTS AND CONTINGENCIES

### *23.1 Operating Lease Commitments – Group as Lessor*

The Group is a lessor under several operating leases covering real estate properties for commercial use (see Note 11). The leases have terms ranging from 1 to 25 years, with renewal options, and include annual escalation rates of 3% to 10%. The average annual rental covering these agreements amounts to P65.0 million.

Future minimum lease payments receivable under these agreements are as follows:

| | | **December 31, 2013 (One Year)** | | December 31, 2012 (One Year) | | December 31, 2011 (Three Months) |
|---|---|---|---|---|---|---|
| Within one year | **P** | **47,655,420** | P | 59,248,009 | P | 46,920,399 |
| After one year but not more than five years | | **146,952,119** | | 203,160,436 | | 146,575,278 |
| More than five years | | **404,135,441** | | 665,907,844 | | 393,188,047 |
| | **P** | **598,742,980** | P | 928,316,289 | P | 586,683,724 |

### *23.2 Operating Lease Commitments – Group as Lessee*

The Group is a lessee under several operating leases covering condominium units for administrative use. The leases have terms ranging from 1 to 5 years with renewal options, and include a 5% to 10% annual escalation rate. The average annual rental covering these agreements amounts to P10.6 million. The future minimum rental payables under these non-cancelable leases as of the end of the reporting periods are as follows:

| | | December 31, 2013 (One Year) | | December 31, 2012 (One Year) | | December 31, 2011 (Three Months) |
|---|---|---|---|---|---|---|
| Within one year | P | 6,106,886 | P | 1,029,000 | P | 1,020,000 |
| After one year but not more than five years | | 12,165,042 | | 617,400 | | 376,031 |
| | P | 18,271,928 | P | 1,646,400 | P | 1,396,031 |

### *23.3 Others*

There are other commitment and contingent liabilities that may arise in the normal course of the Group's operations that are not reflected in the consolidated financial statements. As of the end of the reporting period, management is of the opinion that losses, if any, from these items will not have a material effect on the Group's consolidated financial statements.

## 24. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in Note 26. The main types of risks are market risk, credit risk and liquidity risk.

The Group does not actively 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 in the succeeding paragraphs.

### *24.1 Market Risk*

*(a) Foreign Currency Risk*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise mainly from the Group's U.S. dollar-denominated cash and cash equivalents which have been used to fund new projects.

Management assessed that the foreign currency risks related to these U.S. dollar-denominated cash and cash equivalents to be not material.

*(b) Interest Rate Risk*

The Group has no significant exposure to interest rate risk as financial assets and liabilities are non-interest bearing (trade and other receivables and payables) or are carried at fixed interest rates (cash in banks and advances from related parties).

### *24.2 Credit Risk*

Credit risk is the risk when a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers and related parties and by placing deposits.

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.

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

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Cash and cash equivalents | 5 | **P 4,469,172,263** | P 466,229,767 |
| Trade and other receivables – net | 6 | **2,053,120,803** | 1,560,644,536 |
| Advances to related parties | 20.3 | **928,907,676** | 930,172,521 |
| | | **P 7,451,200,742** | P 2,957,046,824 |

None of the Company's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

*(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 P500,000 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. 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.

*(c) Advances to Related Parties*

The Group is not exposed to any significant credit risk on its advances to related parties with good credit standing. Accordingly, management considers the credit quality of advances to related parties to be good.

### *24.3 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, as well as on the basis of a rolling 30-day projection. Long-term needs for a six-month and one-year period 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 or short-term marketable securities. 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 of end of the reporting periods, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | | Non-current | |
|---|---|---|---|---|
| | Within 6 Months | 6 to 12 Months | 1 to 5 Years | Later than 5 Years |
| December 31, 2013 | | | | |
| Trade and other payables | P 1,084,920,351 | P 877,342,029 | P - | P - |
| Advances from related parties | 514,812,058 | - | - | - |
| Due to joint venture partners | - | - | 233,619,420 | - |
| Redeemable preferred shares | - | - | 390,479,444 | 1,041,110,786 |
| Accrued interest on preferred shares | - | - | 31,232,565 | - |
| | P 1,599,732,409 | P 877,342,029 | P 655,331,429 | P 1,041,110,786 |
| December 31, 2012 | | | | |
| Trade and other payables | P 1,175,950,078 | P 830,468,739 | P - | P - |
| Advances from related parties | 1,045,853,526 | - | - | - |
| Due to joint venture partners | - | - | 214,397,376 | - |
| Redeemable preferred shares | - | - | - | 1,352,336,993 |
| Accrued interest on preferred shares | - | - | - | 10,483,333 |
| | P 2,221,803,604 | P 830,468,739 | P 214,397,376 | P 1,362,820,326 |

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

## 25. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *25.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities*

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.

| | Notes | December 31, 2013 Carrying Values | December 31, 2013 Fair Values | December 31, 2012 Carrying Values | December 31, 2012 Fair Values |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 5 | **P 4,469,172,263** | **P4,469,172,263** | P 466,229,767 | P 466,229,767 |
| Trade and other receivables - net | 6 | **2,053,120,803** | **2,053,120,803** | 1,560,644,536 | 1,560,644,536 |
| Advances to related parties | 20.3 | **928,907,676** | **928,907,676** | 930,172,521 | 930,172,521 |
| | | **P 7,451,200,742** | **P7,451,200,742** | P 2,957,046,824 | P 2,957,046,824 |
| ***Financial liabilities*** | | | | | |
| Financial liabilities at amortized cost: | | | | | |
| Trade and other payables | 13 | **P 1,888,314,919** | **P 1,888,314,919** | P 1,997,466,325 | P 1,997,466,325 |
| Advances from related parties | 20.4 | **514,812,058** | **514,812,058** | 1,045,853,526 | 1,045,853,526 |
| Due to joint venture partners | 14 | **233,619,420** | **233,619,420** | 214,397,376 | 214,397,376 |
| Redeemable preferred shares | 15 | **1,257,987,900** | **1,257,987,900** | 1,257,987,900 | 1,257,987,900 |
| Accrued interest on preferred shares | 15 | **31,232,565** | **31,232,565** | 10,483,333 | 10,483,333 |
| | | **P 3,925,966,862** | **P 3,925,966,862** | P 4,526,188,460 | P 4,526,188,460 |

For the Group's financial assets and financial liabilities measured at amortized cost as at December 31, 2013 and 2012, management considers that the carrying values of these financial instruments approximate their fair values due to their short-term duration or the effect of the discounting for those with maturities more than one year is not material.

See Notes 2.4 and 2.9 for a description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 24.

### *25.2 Offsetting of Financial Assets and Financial Liabilities*

The Group has not set-off financial instruments in 2013 and 2012 and does not have relevant offsetting arrangements. Currently, financial assets and liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and stockholders or upon instruction by the parent company. As such, the Group's outstanding advances to related parties amounting to P928.9 million and P930.2 million can be offset by the amount of outstanding advances from related parties amounting to P514.8 million and P1,045.9 million as at December 31, 2013 and 2012, respectively (see Note 20).

## 26. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *26.1 Fair Value Hierarchy*

In accordance with PFRS 13, the fair value of financial assets and 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:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) 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,

c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial 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.

### *26.2 AFS Financial Assets Measured at Fair Value*

The Group's AFS financial assets are comprised of golf club shares. Fair value measurement of these financial assets was estimated by reference to published prices quoted in an active market and is categorized within Level 2.

### *26.3 Investment Property Measured at Cost for which Fair Value is Disclosed*

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Company's investment property is its current use. The valuation process was conducted by the Company's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

The fair value of the investment property was determined based on the following approaches:

*(i) Fair Value Measurement for Land and Land Developments and Improvements*

The Level 2 fair value of land and land developments and improvements 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 no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

*(ii) Fair Value Measurement for Building and Improvements*

The fair value of the Company's building and improvements, which are classified under Level 3 of the fair value hierarchy, is determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate of 10%.

## 27. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

| | 2013 | 2012 (As Restated – see Note 2.2) |
|---|---|---|
| Total liabilities | **P 7,415,822,780** | P 7,005,847,260 |
| Total equity | **23,627,723,060** | 17,611,810,049 |
| Debt-to-equity ratio | **0.31 : 1.00** | 0.40 : 1.00 |

**GLOBAL-ESTATE RESORTS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Alliance Global Group, Inc.)***
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