# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 20-IS

### INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
   - ○ Preliminary Information Statement
   - ◉ Definitive Information Statement
2. Name of Registrant as specified in its charter
   EMPIRE EAST LAND HOLDINGS, INC.
3. Province, country or other jurisdiction of incorporation or organization
   Metro Manila
4. SEC Identification Number
   AS094-006430
5. BIR Tax Identification Code
   003-942-108
6. Address of principal office
   21st Floor The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, Philippines
   Postal Code
   1227
7. Registrant's telephone number, including area code
   (632) 8678826 to 40
8. Date, time and place of the meeting of security holders
   June 10, 2014, 9 a.m., Grand Ballroom Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City
9. Approximate date on which the Information Statement is first to be sent or given to security holders
   May 20, 2014
10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor
    Rhodora V. Edangalino
    Address and Telephone No.
    28th Floor The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, Philippines, (632)8678826 loc. 363

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

(information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| Common | 14,676,199,167 |

13. Are any or all of registrant's securities listed on a Stock Exchange?

Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

The shares of common stock of the Company are listed on the Philippine Stock Exchange.



Empire East

# Empire East Land Holdings, Inc.
# ELI

**PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting**
***References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules***

| | |
|---|---|
| **Date of Stockholders' Meeting** | Jun 10, 2014 |
| **Type (Annual or Special)** | Annual |
| **Time** | 9:00 a.m. |
| **Venue** | Grand Ballroom Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City |
| **Record Date** | May 2, 2014 |

**Inclusive Dates of Closing of Stock Transfer Books**

| | |
|---|---|
| **Start Date** | N/A |
| **End date** | N/A |

| Other Relevant Information |
| --- |
| None |

**Filed on behalf by:**

| | |
| --- | --- |
| **Name** | Rhodora Edangalino |
| **Designation** | Authorized User |

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 20-1S**
**INFORMATION STATEMENT PURSUANT TO SECTION 20**
**OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:

   **[ ] Preliminary Information Statement**
   **[X ] Definitive Information Statement**

2. Name of Registrant as specified in its charter **EMPIRE EAST LAND HOLDINGS, INC.**

3. **Metro Manila**
   Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number **AS094-006430**

5. BIR Tax Identification Code **003-942-108**

6. **21st Floor The World Centre**
   **330 Sen. Gil Puyat Avenue**
   **Makati City, Philippines** — **1227**
   Address of principal office — Postal Code

7. Registrant's telephone number, including area code **(632) 867-8351 to 59**

8. **10 June 2014, 9:00 a.m. Grand Ballroom**
   **Eastwood Richmonde Hotel**
   **17 Orchard Road, Eastwood City**
   **Bagumbayan, Quezon City, Philippines**
   Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders
   **20 May 2014**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common** | **14,676,199,167** |

11. Are any or all of registrant's securities listed on the Philippine Stock Exchange?

    **Yes [X]** **No [ ]**

    The shares of common stock of the Company are listed on the Philippine Stock Exchange.

# Empire East

21st Floor The World Centre, 330 Sen. Gil Puyat Avenue, Makati City

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

TO ALL STOCKHOLDERS
Empire East Land Holdings, Inc.

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Empire East Land Holdings, Inc. will be held on 10 June 2014, 9:00 a.m., at the Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City, Metro Manila, Philippines, with this agenda:

1. Call to Order
2. Proof of Notice and Determination of Quorum
3. Approval of Minutes of the Previous Annual Meeting
4. Annual Report of Management
5. Appointment of External Auditors
6. Amendment of the Third Article of the Articles of Incorporation to reflect the complete principal office address of the Corporation in compliance with SEC Memorandum Circular No. 6, Series of 2014
7. Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management
8. Election of Directors
9. Other Matters
10. Adjournment

Stockholders of record as of 2 May 2014 will be entitled to notice of, and to vote at, the Annual Meeting.

We are not soliciting your proxy. However, if you would like to appoint proxies to represent you in the Annual Meeting, you may submit your proxy instruments on or before 1 June 2014 to the office of the Corporate Secretary, 28/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City. Validation of proxies will be held on 1 June 2014, 9:00 a.m. Sample proxy forms are enclosed for your convenience. For questions, please call Ms. Rhodora Victorino-Edangalino at Tel. No. +632 8678826 loc. 363.

Makati City, Philippines, May 12, 2014.

**DENNIS E. EDAÑO**
Corporate Secretary

**PROXY**
**EMPIRE EAST LAND HOLDINGS, INC.**
**2014 STOCKHOLDERS' MEETING**

I/WE hereby name and appoint, ________________________________________, or in his absence, the Chairman of the meeting, as my/our proxy at the annual stockholders' meeting of EMPIRE EAST LAND HOLDINGS, INC. ("Empire East") to be held on 10 June 2014 at the Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City, Metro Manila, Philippines, and/or at any postponement or adjournment thereof, and/or any annual stockholders' meeting of Empire East, which appointment shall not exceed five (5) years from date hereof.

In particular, I hereby direct my said proxy to vote all my shares on the agenda items set forth below as I have expressly indicated by marking the same with an "X".

| **Items No.** | **Subject** | **Action** | | |
|---|---|---|---|---|
| | | **For** | **Against** | **Abstain** |
| 3 | Approval of Minutes of the Annual Meeting held on June 13, 2012 | | | |
| 5 | Appointment of External Auditors | | | |
| 6 | Amendment of the Third Article of the Articles of Incorporation to reflect the complete principal office address of the Corporation in compliance with SEC Memorandum Circular No. 6, Series of 2014 | | | |
| 7 | Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management | | | |
| 8 | Election of Directors | | | |
| | a. Andrew L. Tan | | | |
| | b. Katherine L. Tan | | | |
| | c. Anthony Charlemagne C. Yu | | | |
| | d. Enrique Santos L. Sy | | | |
| | e. Alejo L. Villanueva, Jr. | | | |
| | f. Gerardo C. Garcia | | | |
| | g. Evelyn G. Cacho | | | |
| **FULL DISCRETION** | | | | |

________________________________ ________________________________
PRINTED NAME OF STOCKHOLDER AUTHORIZED SIGNATORY

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE 1 June 2014.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

THIS PROXY DOES NOT NEED TO BE NOTARIZED.

(Partnerships, Corporations and Associations must attach certified resolutions designating their proxies/representatives and authorized signatories)

## INFORMATION STATEMENT

## GENERAL INFORMATION

### Date, Time and Place of Meeting of Security Holders

The annual meeting of stockholders of the Company will be held on 10 June 2014, 9:00 a.m., at the Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City, Metro Manila, Philippines.

The Company's complete mailing address is at 21/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, Philippines.

Copies of this information statement will be sent on or before 20 May 2014 to all stockholders on record as of 02 May 2014.

The Company is not soliciting proxies. We are not asking you for a proxy. Neither are you required to send us a proxy.

### Dissenters' Right of Appraisal

There is no proposed corporate action or matter that will grant appraisal rights pursuant to the Corporation Code of the Philippines to dissenting stockholders.

Any stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in the following instances: 1) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; 2) in case the corporation decides to invest its funds in another corporation or business or for any purpose outside of the primary purpose for which it was organized; (3) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; and 4) in case of merger or consolidation.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the Company within thirty (30) days after the date on which the vote was taken, for payment of the fair value of his shares. **A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.** Failure to make the demand within the 30-day period shall be deemed a waiver of the appraisal right. From the time of the demand until either the abandonment of the corporate action in question or the purchase of the dissenting shares by the Company, all rights accruing to the dissenting shares shall be suspended, except the stockholder's right to receive payment of the fair value thereof. If the proposed corporate action is implemented or effected, the Company shall pay to such stockholder, upon surrender of the stock certificate(s) representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If the fair value is not determined, within sixty (60) days from the date the corporate action was approved by the stockholders, it will be determined by three (3) disinterested persons (one chosen by the Company, another chosen by the dissenting stockholder and the third to be chosen jointly by the Company and the stockholder). The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. Upon payment by the Company of the awarded price, the dissenting stockholder shall forthwith transfer his shares to the Company.

No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings.

### Interest of Certain Persons in or Opposition to Matters to be Acted Upon

No director or officer of the Company, or any nominee for election as a director of the Company, or any associate thereof, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.

No director of the Company has informed it in writing that he intends to oppose any action to be taken by the Company at the annual meeting of stockholders.

## CONTROL AND COMPENSATION INFORMATION

**Voting Securities and Principal Holders Thereof**

Number of Shares Outstanding

As of 31 March 2014, the Company had 14,676,199,167 outstanding shares of common stock. Each common share shall be entitled to one (1) vote.

Record Date of Meeting

All owners on record of the Company's common shares as of 02 May 2014 will be entitled to notice of, and to vote at, the annual meeting of stockholders.

Cumulative Voting Rights

Each common share entitles the person in whose name it is registered in the books of the Company to one (1) vote with respect to all matters to be taken up during the annual meeting of stockholders. Each holder of common stock shall have cumulative voting rights with respect to the election of the members of the board of directors of the Company. Cumulative voting entitles each stockholder to cumulate his shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or distribute them on the same principle among as many nominees as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

Security Ownership of Record and Beneficial Owners of more than 5% of the Company's Shares of Common Stock as of March 31, 2014

| Title of Class | Name, Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | Number of Shares Held | Percent of Class |
|---|---|---|---|---|---|
| Common | Megaworld Corporation[1] 28/F The World Centre 330 Sen. Gil Puyat Avenue, Makati City | Megaworld Corporation | Filipino | 11,993,051,438 | 81.7176% |
| | PCD Nominee Corporation (Filipino) G/F Makati Stock Exchange Bldg., 6767 Ayala Avenue, Makati City | Megaworld Corporation, a client of a participant of PCD Nominee Corporation (Filipino) | | 375,000<br>11,993,426,438 | 0.0025%<br>81.7202% |

[1]The Board of Directors of Megaworld Corporation authorizes its Chairman of the Board and President or in his absence the Chairman of the Meeting, to vote Megaworld Corporation's common shares in the Company.

| | | | | | |
|---|---|---|---|---|---|
| Common | PCD Nominee Corporation (Filipino) G/F Makati Stock Exchange Bldg., 6767 Ayala Avenue, Makati City | The shares registered in the name of PCD Nominee Corporation (Filipino) are either beneficially owned by the participants of the PCD composed of custodian banks and brokers or held by them in trust for their clients. No PCD participant owns 5% or more of the Company's shares of common stock. | Filipino | 1,523,915,0731[2] | 10.3836% |

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.

<u>Security Ownership of Management as of March 31, 2014</u>

| Title of Class | Name of Beneficial Owner | Amount/Nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Directors | | | | |
| Common | Andrew L. Tan | 24,277,777 (direct) | Filipino | 0.16542278% |
| | | 1[3] (indirect) | Filipino | 0.00000001% |
| | | 11,993,426,438[4] (indirect) | Filipino | 81.72024855% |
| | | 138,133,820[5] (indirect) | Filipino | 0.94120967% |
| Common | Gerardo C. Garcia | 636,277 (direct) | Filipino | 0.00433543% |
| Common | Anthony Charlemagne C. Yu | 1 (direct) | Filipino | 0.00000001% |
| Common | Katherine L. Tan | 1 (direct)<br>24,277,777[6] (indirect) | Filipino<br>Filipino | 0.00000001%<br>0.16542278% |
| Common | Enrique Santos L. Sy | 11,892 (direct) | Filipino | 0.00008103% |
| Common | Evelyn G. Cacho | 35,240 (direct) | Filipino | 0.00024012% |
| Common | Alejo L. Villanueva, Jr. | 1 (direct) | Filipino | 0.00000001% |

[2] This includes 375,000 shares beneficially owned by Megaworld Corporation.
[3]The share is beneficially owned by Katherine L. Tan, spouse of Andrew L. Tan.
[4] The shares are held by Megaworld Corporation which authorizes Andrew L. Tan, in his capacity as Chairman of the Board and President, or in his absence the Chairman of the Meeting, to vote Megaworld's common shares in the Company.
[5] The shares are held by The Andresons Group, Inc. of which Andrew L. Tan is a controlling shareholder.
[6] The shares are beneficially owned by Andrew L. Tan, spouse of Katherine L. Tan.

| | | | | |
|---|---|---|---|---|
| President and Four Most Highly Compensated Officers | | | | |
| Common | Anthony Charlemagne C. Yu | Same as above | | |
| Common | Ricky S. Libago | 0 | Filipino | n/a |
| Common | Antonio E. Llantada, Jr. | 92,532 (direct) | Filipino | 0.00063049% |
| Common | Evelyn G. Cacho | Same as above | | |
| Common | Ricardo B. Gregorio | 0 | Filipino | n/a |
| Other Executive Officers | | | | |
| Common | Jhoanna Lyndelou T. Llaga | 0 | Filipino | n/a |
| Common | Giovanni C. Ng | 0 | Filipino | n/a |
| Common | Dennis E. Edaño | 0 | Filipino | n/a |
| Common | Celeste Z. Sioson | 0 | Filipino | n/a |
| Common | All directors and executive officers as a group | 25,053,721 (direct) | Filipino | 0.170709873% |

Voting Trust Holders of 5% or More

The Company has no knowledge of any person holding more than five percent (5%) of the Company's shares of common stock under a voting trust or similar agreement.

Changes in Control

No change in control of the Company has occurred since the beginning of its last fiscal year. The Company has no knowledge of any existing arrangements that may result in a change in control of the Company.

**Directors and Executive Officers**

There are seven (7) members of the Company's Board of Directors, two (2) of whom are independent directors. All incumbent directors were elected during the annual meeting of stockholders held on 10 July 2013 and will hold office for one (1) year and/or until their successors are elected and qualified.

Information concerning the background of the directors and executive officers of the Company is provided in pages 5 to 9 of the Company's Annual Report to Stockholders.

Procedure for Nomination and Election of Independent Directors

Pursuant to Article II, Section 2 of the Company's By-Laws, the nomination and election of independent directors shall be conducted in accordance with SRC Rule 38.

SRC Rule 38 provides that the nomination and election of independent directors shall be conducted in accordance with the following rules:

1. Nomination of independent directors shall be conducted by the Nomination Committee prior to a stockholders' meeting. All recommendations shall be signed by nominating stockholders and shall bear the conformity of the nominees.

2. The Nomination Committee shall pre-screen the nominees and prepare a final list of candidates.

3. The final list of candidates shall contain the business and/or professional experience of the nominees for independent directors, which list shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in

accordance with SRC Rule 20, or in such other reports the Company is required to submit to the Commission. The name of the person or group of persons who recommended the nominees for independent directors shall be identified in such report including any relationship to the nominees.

4. Only nominees whose names appear in the final list of candidates shall be eligible for election as independent directors. No other nominations shall be entertained after the final list of candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

5. The conduct of the election of independent directors shall be made in accordance with the standard election procedures of the Company in its by-laws, subject to pertinent laws, rules and regulations of the Commission.

6. It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent directors. He shall ensure that independent directors are elected during the stockholders' meeting.

7. In case of failure of election for independent directors, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

Nominees

Directors are elected annually by the stockholders at the annual stockholders' meeting to serve until the election and qualification of their successors. The Nomination Committee composed of Enrique Santos L. Sy as Chairman, Gerardo C. Garcia and Alejo L. Villanueva, Jr. as members, accept nominees to the Board of Directors, including nominees for independent directors. The Committee is responsible for screening and qualifying the list of nominees. The following is the complete and final list of nominees and candidates for members of the Board of Directors:

1. Andrew L. Tan
2. Katherine L. Tan
3. Anthony Charlemagne C. Yu
4. Enrique Santos L. Sy
5. Evelyn G. Cacho
6. Gerardo C. Garcia-Independent Director
7. Alejo L. Villanueva, Jr.– Independent Director

Independent Directors

This year's nominees for directors include two persons who qualify as independent directors. Mr. Carmelo Jose J. Canto III nominated incumbent independent director, Mr. Gerardo C. Garcia, for another term, while Ms. Maria Rosario Justo nominated incumbent independent director, Mr. Alejo J. Villanueva, for another term. Ms. Justo and Messrs. Canto, Garcia and Villanueva are not related by consanguinity or affinity up to the fourth civil degree.

Significant Employees

The business of the Company is not highly dependent on the services of personnel outside of Senior Management.

Family Relationships

Mr. Andrew L. Tan and Ms. Katherine L. Tan, both directors of the Company, are spouses.

Material Pending Legal Proceedings

The Company is not aware of the occurrence, as of the date hereof and during the past five (5) years preceding this date, of any of the following events which it believes to be material to the evaluation of the ability or integrity of any of its directors, nominees for election as director, or executive officers:

1. Any bankruptcy petition filed by or against any business of a director, nominee for election as director, or executive officer who was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2. Any director, nominee for election as director, or executive officer being convicted by final judgment in a criminal proceeding, domestic or foreign, or being subject in his personal capacity to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

3. Any director, nominee for election as director, or executive officer being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

4. Any director, nominee for election as director, or executive officer being 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, and the judgment has not been reversed, suspended, or vacated.

Related Transactions

The Company paid a management/leasing fee of P1.2 million to an affiliate for the management/leasing of parking slots and some commercial units. In 2013, total commissions earned by a subsidiary from the sale of its parent company's real estate properties amounted to P147.6 million.

The Company, in the normal course of business, enters into transactions with related companies primarily consisting of lease of properties and advances for real estate transactions, working capital requirements and other business-related purposes. Rental for leased properties and interest on interest-bearing advances are within market rates. The related parties that have entered into transactions with the Company are identified in Schedules C & F of the SEC Supplementary Schedules as of December 31, 2013. Related parties are able to settle their obligations in connection with transactions with the Company and the Company does not foresee risks or contingencies arising from these transactions. Additional information on related party transactions is provided in Item 22 of the Notes to the Audited Consolidated Financial Statements of the Company and its Subsidiaries attached as Exhibit 1 hereof and incorporated herein by reference.

Other than those disclosed in the Company's Financial Statements, the Company has not entered into other related party transactions

Resignation/Disagreement

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual meeting of stockholders because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

**Compensation of Directors and Executive Officers**

Compensation of Certain Officers

The total annual compensation paid to the President/CEO and four most highly compensated executive officers of the Company amounted to Php10,759,782 in 2013 and Php9,779,201 in 2012.

The projected total annual compensation of the named executive officers for the current year is Php11,498,967.

Compensation of Directors

The members of the Board of Directors of the Company receive a standard per diem for attendance in board meetings. In 2013, the Company paid a total of Php500,000 for directors' per diem. For 2014, the Company has allocated the same amount of Php700,000 for directors' per diem.

Apart from directors' per diem, there are no other arrangements, such as consulting contracts, pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the Company's last completed fiscal year, and the ensuing year, for any service provided as a director.

Summary of Compensation Table

The following table identifies the President and the four most highly compensated officers of the Company and summarizes their aggregate compensation in 2012 and 2013 and estimated aggregate compensation for 2014:

| Name and Principal Position | Year | Salary | Bonus | Others | Total Annual Compensation |
|---|---|---|---|---|---|
| Anthony Charlemagne C. Yu, President & CEO | | | | | |
| Ricky S. Libago SVP for Property Development | | | | | |
| Antonio E. Llantada, Jr., VP for Audit and Management Services | | | | | |
| Evelyn G. Cacho, VP for Finance | | | | | |
| Ricardo B. Gregorio, VP for HR, General & Admin Services | | | | | |
| President and 4 Most Highly Compensated Officers | 2012 | 7,831,277 | 703,732 | 1,244,192 | 9,779,201 |
| | 2013 | 8,678,714 | 738,827 | 1,342,241 | 10,759,782 |
| | 2014 | 9,286,224 | 790,545 | 1,422,198 | 11,498,967 |
| All Other Officers and Directors as a Group | 2012 | 5,231,575 | 453,955 | 1,113,274 | 6,798,804 |
| | 2013 | 23,122,174 | 1,941,404 | 2,374,724 | 27,438,301 |
| | 2014 | 24,740,725 | 2,072,302 | 2,716,124 | 29,534,151 |

Employment Contracts and Termination of
Employment and Change-in-Control Arrangements

Executive officers are appointed by the Board of Directors to their respective offices. Certain executive officers are employees of the Company and are entitled to standard employee benefits extended by the Company to its employees.

Other than benefits available under the Company's retirement plan, there is no compensatory plan or arrangement with respect to an executive officer which results or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company and its subsidiaries, or a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

Outstanding Warrants and Options

There are no outstanding warrants or options in respect of the Company's shares that are held by the Company's CEO, or any director or executive officer of the Company.

**Independent Public Accountants**

The Board of Directors of the Company, in consultation with the Audit Committee composed of Gerardo C. Garcia as Chairman and Alejo L. Villanueva, Jr. and Evelyn G. Cacho as Members, will recommend to the stockholders the engagement of Punongbayan & Araullo as external auditors of the Company for 2014.

The Company complied with SRC Rule 68(3)(b)(iv) and the Company's Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the signing partner changed after five (5) years of engagement. A two-year cooling off period shall be observed in the re-engagement of the same signing partner. In this regard, starting the year ending 31 December 2011, Mr. Nelson Dinio, one of the Audit and Assurance Partners of Punongbayan and Araullo (P&A), was designated as the signing partner for the audit of the Company's financial statements. Ms. Mailene Sigue-Bisnar, also one of the Audit and Assurance Partners of P&A, handled the audit of the Company's financial statements for the past five years from 2006 to 2010.

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 and its subsidiaries.

Representatives of Punongbayan & Araullo are expected to be present at the annual meeting of stockholders. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

**Financial Information**

Financial Statements of the Company and its subsidiaries as of 31 December 2013, 2012 and 2011, the Interim Financial Statements of the Company and its subsidiaries as of 31 March 2014, and the Management's Discussion and Analysis of Results of Operations and Financial Condition for the corresponding periods are contained in the Company's Annual Report to Stockholders and are incorporated herein by reference.

## OTHER MATTERS

### Action with Respect to Reports

The minutes of the annual meeting of stockholders held on 10 July 2013 will be submitted to the Company's stockholders for approval. The minutes will refer to the adoption of stockholders' resolutions pertaining to the following matters:

1. Approval of Minutes of the Annual Meeting held on June 13, 2012
2. Appointment of External Auditors
3. Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management
4. Election of Directors

The approval or disapproval of said minutes will constitute merely an approval or disapproval of the correctness of the minutes but will not constitute an approval or disapproval of the matters referred to in the minutes.

### Amendment of Charter, Bylaws or Other Documents

The Company proposes to amend the third Article of its Articles of Incorporation to reflect the complete principal office address of the Corporation from "Metro Manila, Philippines" to "21st Floor, The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, Philippines." The amendment is being made in compliance with SEC Memorandum Circular No. 6, Series of 2014 which requires existing corporations whose articles of incorporation indicate "Metro Manila" as their principal office address to file an amended articles of incorporation in order to specify their complete address.

### Other Proposed Action

The stockholders will be asked to ratify all acts and resolutions of the Board of Directors, Board Committees and Management adopted during the period covering 1 January 2013 through 31 December 2013.

These acts are covered by resolutions duly adopted by the Board of Directors and its Board Committees, such as:

1. Appointment of Contract Signatories;
2. Issuance of common shares to Megaworld Corporation;
3. Appointment of Proxies and Nominees;
4. Application for Permits and Licenses for Projects;
5. Operation of Bank Accounts and other Bank Transactions;
6. Development and Operation of Projects;
7. Property Acquisitions, Dispositions, Leases and Joint Ventures;
8. Application for Telecommunication Subscriptions;
9. Holding of 2013 Annual Meeting of Stockholders;
10. Reallocation of Rights Offer Proceeds;
11. Sale of interest in Suntrust Properties, Inc.;
12. Registration of Master Deeds and Restrictions covering Projects.

### Voting Procedures

<u>Vote Required</u>

In the election of directors, the seven (7) nominees garnering the highest number of votes will be elected as members of the board of directors, provided that there shall always be at least two (2) independent directors in the Company's board of directors.

The vote of stockholders representing at least two-thirds of the outstanding capital stock of the Company will be required to approve the proposed amendment to the third Article of the Company's Articles of Incorporation.

For all other matters proposed to be acted upon, the vote of majority of the outstanding capital stock will be required for approval.

Method of Counting of Votes

Each common share entitles the person in whose name it is registered in the books of the Company to one vote with respect to all matters to be taken up during the annual meeting of stockholders. In the election of directors, each holder of common share may vote such number of shares for as many persons as there are directors to be elected or may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

There will be seven (7) persons to be elected to the Company's board of directors, including two (2) independent directors. In the event that the number of nominees to the board of directors should exceed the number of board seats, voting shall be done by ballot. However, if the number of nominees to the board of directors will not exceed the number of board seats, voting will be done by a show of hands. Election inspectors duly appointed during the meeting shall be responsible for counting the number of votes, subject to validation by representatives of Punongbayan & Araullo, the Company's external auditors.

**The Company shall provide, without charge, to each stockholder a copy of its annual report on SEC Form 17-A, upon written request addressed to Empire East Land Holdings, Inc., Attention: Mr. Dennis E. Edaño, Corporate Secretary, 24th Floor The World Centre, 330 Sen. Gil Puyat Avenue, Makati City.**

**SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on May 14, 2014.

**EMPIRE EAST LAND HOLDINGS, INC.**

By:

**EVELYN G. CACHO**
Vice President for Finance

## ANNUAL REPORT TO STOCKHOLDERS

### Business Development

Empire East Land Holdings, Inc. (the "Company") was incorporated under Philippine law on 15 July 1994. Prior to its incorporation, the Company was a division of Megaworld Corporation (formerly, Megaworld Properties & Holdings, Inc.) and was then known as its Community Housing Division. In 1994, Megaworld Corporation decided to spin off its Community Housing Division into what is now the Company for the purpose of separating its high-end residential and office business from its lower and middle-income housing business. As of December 2013, Megaworld holds 81.72% of the Company.

As of December 31, 2013, the Company holds 100% equity interest in Eastwood Property Holdings, Inc. (EPHI); Valle Verde Properties, Inc. ("VVPI"); Sherman Oak Holdings, Inc. ("SOHI") and Empire East Communities, Inc. ("EECI"); 73% in Laguna BelAir Science School, Inc. (LBAS); 60% in Sonoma Premier Land, Inc. ("SPLI") (formerly, "Galleria Corsini Holdings, Inc."); and 47% in Gilmore Property Marketing Associates, Inc. ("GPMAI").

EPHI, which was incorporated on September 5, 1996, serves as the marketing arm of the Company and markets the projects of the Company and those of other related parties.

SPI, which was incorporated on November 14, 1997, is a company that is engaged in the development and construction of affordable projects. In 2008, SPI increased its authorized capital stock and the Company subscribed to 262.5 million common shares at P1.00 par value, paid by way of conversion of advances into equity, resulting in an increase in the Company's ownership in SPI from 40% to 80%. In 2011, the percentage ownership of the Company in SPI was reduced to 33% due to Megaworld's subscription to SPI's increase in capital stock. On June 7, 2013, the Company sold its 33% ownership interest in SPI to Megaworld. As a result of the sale, SPI ceased to be an associate of the Company.

VVPI was incorporated on October 13, 2006. In 2008, the Company acquired shares of VVPI from another stockholder increasing the Company's ownership in VVPI to 100%.

SPLI was incorporated on February 26, 2007 and started its commercial operations in 2008. In 2008, 200 million shares in SPLI were acquired by the Company, increasing its ownership to 60% from 20%.

EECI was incorporated on October 14, 2008 and is wholly owned by the Company. It acts as a marketing arm of the Company.

SOHI was incorporated on February 2, 2007. In January 2008, the Company acquired 100% ownership in SOHI.

GPMAI was incorporated on September 5, 1996 to acquire, lease and construct or dispose of properties. In 2010, the Company acquired 52% ownership in GPMAI by subscribing to 27M shares by way of conversion of advances into equity. In 2012, GPMAI issued 5M shares of stock to a third party which resulted to the decrease of Company's ownership to 47%.

LBASSI (formerly, Laguna BelAir School Inc. or LBASI) is a company incorporated on February 13, 1996 and is presently operating a school for primary and secondary education. The change in name was approved in August 2013. The Company owns 73% of LBASSI.

Neither the Company nor its subsidiaries has been the subject of a bankruptcy, receivership or similar proceeding or has been involved in any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business except as otherwise stated herein.

**General Nature and Scope of Business**

**Empire East Land Holdings, Inc.** is a real estate developer, builder and seller. Its core products are mid-rise to high-rise condominium towers within Metro Manila as well as single-detached homes and house-and-lot packages in progressive suburban areas.

The Company has set trends in residential concepts. It was the first to conceptualize **township developments** that weaved several households together in one fully functioning and fully equipped community that offers common use of facilities such as courts, pools, churches, stores and schools as evident in its 1994 project, the Laguna Bel-Air in Sta. Rosa City, Laguna.

Another trend would be its **Transit Oriented Developments** which consist of condominium clusters directly linked to mass transport systems. This includes the Metro Rail Transit (MRT) and Light Rail Transit (LRT) as well as major bus lines. This is popular among aspiring city dwellers today as it provides faster and more efficient mobility.

Recently, the Company launched its newest residential living concept **Urban Resorts** which highlights a community's indulgent and unique amenities such as highly styled pools, ponds, voguish clubhouse, play areas and courts. Its aim is to invite aspiring homeowners to experience the “vacation lifestyle” by giving them access to resort facilities without having to physically leave the city.

**Update on Projects**

**KASARA URBAN RESORT RESIDENCES** is an approximately 1.8 hectare development located along Eagle Ave. & P.E. Antonio St., Brgy. Ugong, Pasig City. This location is a convenient walking distance from C5 Road, Tiendesitas, SM Center Pasig, and Valle Verde Subdivisions. Kasara is composed of 6 high-rise towers with water features in the middle of the development, including a lake-inspired pool, a clubhouse, mini bar, koi ponds, water fountains, man-made waterfalls and fitness trails. Site development works have been completed and construction of the clubhouse and swimming pool is on-going.

**THE ROCHESTER** is an approximately 3-hectare development located in Pasig City which features mid-rise and high-rise residential buildings equipped with stylish recreational facilities.

**SAN LORENZO PLACE** is an upscale high-rise development along EDSA corner Chino Roces Avenue in Makati City. It features a high-end shopping mall on a podium with a direct link to MRT-3 Magallanes station that can easily bring its future dwellers to the Makati central business district and the rest of Metro Manila. Completion of construction is expected by the end of 2014 for Tower 4, 2015 for Tower 1 and 2017 for Tower 2. Turn-over of the first tower is expected to take place in 2014.

**PIONEER WOODLANDS** is a 6-tower development on a 1.5 hectare terrain located along EDSA. Since it is linked by a bridge to the MRT Boni Station, it offers superior access to every vital point in Metro Manila. Within the development, one will find a swimming pool, basketball court, jogging trails, pocket gardens and gyms. Tower 1 has been completed and the units are currently being turned over to buyers. Tower 2 is near completion while the construction of Towers 3 and 4 are in full swing.

**LITTLE BAGUIO TERRACES** is a 4-tower community developed on a 1.8 hectare land located along N. Domingo Street in San Juan City. This property conveniently links N. Domingo St. from one side to Aurora Blvd. on the other side by a 177-m access road – making it highly accessible to the schools and establishments in both streets. It is also conveniently located between two main stations of the LRT2 namely J. Ruiz and Gilmore stations. Turnover of Tower 1 is ongoing. The remaining 3 towers are in various stages of construction.

**SONOMA** is a 50-hectare township development in Sta. Rosa City Laguna, the place where Empire East first set its roots via the development of its first township project, the Laguna BelAir. The Sonoma offers single-detached homes and house-and-lot packages to its aspiring homeowners in 6 house models. Turnover of two of its four phases, The Enclave and Country Club, is currently undergoing.

**THE CAMBRIDGE VILLAGE** is a multi-cluster, large-scale residential development located at the boundary of the Pasig-Cainta area. Some clusters have been completed while construction is still on-going for the remaining clusters.

**SOUTHPOINT SCIENCE PARK** is a 31-hectare property located at Gimalas, Balayan, Batangas which will be developed into a mixed-use development.

**Market Price of and Dividends on Common Equity**

The Company's common shares are traded on the Philippine Stock Exchange ("PSE"). The following table sets out, for the periods indicated, the high and low sales price for the Company's common shares as reported on the PSE:

| Year | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 2012 High | 0.67 | 0.84 | 0.94 | 1.13 |
| Low | 0.60 | 0.61 | 0.76 | 0.82 |
| 2013 High | 1.10 | 1.21 | 1.02 | 0.98 |
| Low | 0.98 | 0.92 | 0.92 | 0.90 |
| 2014 High | 0.91 | | | |
| Low | 0.90 | | | |
| 5/14/14 Close | 1.00 | | | |

**Holders**

As of 31 March 2014, there were 12,868 holders of the Company's common shares. The following table sets forth the twenty largest shareholders of the Company as of 31 March 2014.

| Rank | Name of Holder | Number of Shares | Percentage of Ownership |
|---|---|---|---|
| 1. | Megaworld Corporation | 11,993,426,438 | 81.7202% |
| 2. | PCD Nominee Corporation (Filipino) | 1,523,540,073[1] | 10.3836% |
| 3. | PCD Nominee Corporation (Non-Filipino | 729,536,645 | 4.9709% |
| 4. | The Andresons Group, Inc. | 138,133,820 | 0.9412% |
| 5. | Andrew L. Tan | 24,277,777 | 0.1654% |
| 6. | Simon Lee Sui Hee | 16,685,206 | 0.1137% |
| 7. | Ramon Uy Ong | 14,950,000 | 0.1019% |
| 8. | Lucio W. Yan | 10,350,000 | 0.0705% |
| 9. | Union Properties, Inc. | 6,157,808 | 0.0420% |
| 10. | Alberto Mendoza and/or Jeanie C. Mendoza | 4,444,106 | 0.0303% |
| 11. | Evangeline R. Abdullah | 4,324,000 | 0.0295% |
| 12. | George T. Yang | 3,675,400 | 0.0250% |
| 13. | Zheng Chang Chua | 3,220,000 | 0.0219% |
| 14. | Tiong C. Rosario | 3,138,791 | 0.0214% |
| 15. | Maximino S. Uy &/or Lim Hue Hua | 3,105,000 | 0.0212% |
| 16. | Trans-Asia Securities, Inc. | 3,000,000 | 0.0204% |
| 17. | Luisa Co Li | 2,902,908 | 0.0198% |
| 18. | Edward N. Cheok | 2,875,000 | 0.0196% |
| 19. | Aboitiz Equity Ventures, Inc. | 2,813,843 | 0.0192% |
| 20. | Carolina Ong Yu | 2,415,000 | 0.0165% |

[1] This includes 375,000 shares beneficially owned by Megaworld Corporation.

The information provided above is not being presented in connection with securities to be issued pursuant to an acquisition, business combination or other reorganization initiated by or involving the Company.

**Dividends**

The 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, that 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 (2/3) of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose.

No stock dividends were declared on the Company's common shares for 2007 to 2012. The Company declared a 15% stock dividend on March 15, 2006, which was paid on August 8, 2006 to all shares of common stock outstanding as of July 13, 2006.

The Corporation Code prohibits stock corporations from retaining surplus profits in excess of one hundred per cent (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.

**Recent Sales of Unregistered or Exempt Securities**

On 30 October 2012, 2,695,239,834 new common shares were issued to stockholders pursuant to a 1:4 pre-emptive stock rights offer and were listed with the Philippine Stock Exchange. The rights shares were issued at Php1.00 per share.

Relative to the Company's pre-emptive rights offer, the Company filed with the Philippine Securities and Exchange Commission ("SEC") an Application for Confirmation of Exempt Transaction pursuant to the Securities Regulation Code (SRC). On August 24, 2012, the SEC issued an order confirming that the rights offer is an Exempt Transaction under Section 10.1 (e) and (i) of the SRC.

On 26 June 2013, One Billion Two Hundred Million (1,200,000,000) common shares of the capital stock of the Company were issued to Megaworld Corporation, at the price of One Peso & 05/100 centavos per share for an aggregate subscription price of One Billion Two Hundred Sixty Million (Php1,260,000,000.00).

Relative to the subscription of Megaworld Corporation, the Company filed on 05 July 2013 with the Philippine Securities and Exchange Commission ("SEC") a Notice of Exempt Transaction under Section 10.1(e) of the Securities Regulation Code.

**Directors and Executive Officers**

There are seven (7) members of the Company's Board of Directors, two of whom are independent directors. An independent director is a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director [SRC Rule 38]. All directors were elected during the annual meeting of stockholders held on 10 July 2013 for a term of one year and until their successors are elected and qualified.

Information concerning the background of the directors/nominees for directors and executive officers of the Company indicating their principal occupation or employment and their business or professional experience for the past five (5) years is provided below.

The table sets forth each member of the Company's Board of Directors and the Company's executive officers as of 1 April 2014.

| Name | Present Position |
|---|---|
| Andrew L. Tan…………………… | Chairman of the Board |
| Gerardo C. Garcia……………… | Vice Chairman/Independent Director |
| Katherine L. Tan………………… | Director |
| Anthony Charlemagne C. Yu….. | Director/President |
| Alejo L. Villanueva, Jr…………. | Independent Director |
| Evelyn G. Cacho………………… | Director/Vice President for Finance |
| Enrique Santos L. Sy…………. | Director |
| Ricky S. Libago…………………. | Senior Vice President for Property Development |
| Antonio E. Llantada, Jr…………. | Vice President for Audit and Management Services |
| Ricardo B. Gregorio…………… | Vice President for Human Resources General and Administration Services |
| Jhoanna Lyndelou T. Llaga…… | Vice President for Marketing |
| Giovanni C. Ng…………………. | Treasurer |
| Dennis E. Edaño………………. | Corporate Secretary |
| Celeste Z. Sioson……………… | Assistant Corporate Secretary |

Following is a brief profile of the incumbent directors and executive officers of the Company, indicating their respective business or professional experience for the past five (5) years.

**Andrew L. Tan**
Chairman of the Board

Mr. Tan, Filipino, 64 years old, Filipino, has served as Chairman of the Company's Board of Directors since its incorporation in July 1994. He was also Treasurer of the Company from July 1994 to May 1998. He is the Chairman of the Board and President of Megaworld Corporation, a publicly listed parent of the Company, and Suntrust Properties, Inc., a wholly owned subsidiary of Megaworld engaged in the development and marketing of affordable housing projects. He pioneered the live-work-play-learn model in real estate development through Megaworld's integrated township communities, thus fueling the growth of the business process outsourcing (BPO) industry. He chairs publicly-listed Alliance Global Group, Inc. which holds interests in property development through Megaworld, integrated tourism estates development through Global-Estate Resorts, Inc. and Travellers International Hotel Group, Inc. which owns Resorts World Manila, and food and beverage manufacturing and distribution through Emperador Inc., which owns Emperador Distillers, Inc., the leading brandy manufacturer and distributor in the Philippines, and Golden Arches Development Corporation, which operates and franchises quick service restaurants under the McDonald's brand. Mr. Tan also serves in the boards of various affiliates including Eastwood Cyber One Corporation, Megaworld Land, Inc., Megaworld Central Properties, Inc., Townsquare Development, Inc. and Richmonde Hotel Group International Limited. Mr. Tan is Chairman of Megaworld Foundation, Megaworld's corporate social responsibility arm, which primarily focuses on the promotion of education through scholarship programs for financially handicapped but deserving students, and supports causes that promote poverty alleviation, people empowerment, social justice, good governance and environmental conservation.

**Anthony Charlemagne C. Yu**
Director/President

Mr. Yu, 51 years old, Filipino, has been a member of the Company's Board of Directors since January 1998 and has served as President of the Company for the same period. He joined Megaworld Land, Inc. in September 1996 and served as its Vice President until December 1997. Mr. Yu obtained his Bachelor of Arts degree major in Political Science from the Ateneo de Manila University and his Bachelor of Laws degree from the University of the Philippines. He holds a Masters Degree from the University of London. Mr. Yu previously worked for Ten Knots Development Corporation where he served as Vice President for Corporate and Legal Affairs and was a member of both its Executive and Management Committees. He also worked as a legal associate at the Ponce Enrile Cayetano Reyes & Manalastas Law Offices and was Special Legal Counsel to the Secretary of Health, Juan Flavier. He also served as a Consultant in the Senate of the Philippines. He was a member of the College Faculty of the Ateneo de Manila University for eight (8) years, from 1985 to 1993 and sat on the board of the Institute of the Philippine Culture of the Ateneo de Manila University. Mr. Yu has also served as a Law Professor in the College of Law of the University of the Philippines. He likewise served as Consultant at the Philippine Senate. He was Philippine Delegate to the Philippines-China Business Council held in Beijing, China in 1996 and the Integrated Environmental Management Forum held in Israel in 1995. Mr. Yu was a member of the United Nations Development Program's Regional Network of Legal Experts on Marine Pollution and the Board of Trustees of Management Advancement Systems, Association, Inc. He is currently the Chairman of the Board and President of the Philippine Science-assisted school, Laguna BelAir School, Inc. He is the President of the El Nido Foundation and the Chairman of the ERDA Foundation. He is also a member of the Board of Trustees of IBON Foundation, a non-profit research and education development institution that provides socio-economic research and analysis on people's issues to various sectors. Mr. Yu is President and Director of various affiliates of the Company including Empire East Communities, Inc., Megaworld Central Properties, Inc., Sherman Oak Holdings, Inc., Sonoma Premier Land, Inc., Valle Verde Properties, Inc. and Megaworld Newport Property Holdings, Inc.

**Katherine L. Tan**
Director

Ms. Tan, 62 years old, Filipino, was elected to the Board on 9 June 2009. She previously served as director of the Company from 1994 to 1996. She is concurrently a Director of Megaworld Corporation, Director and Treasurer of Alliance Global Group, Inc., Emperador Inc., Alliance Global Brands, Inc. and Emperador Distillers, Inc. She has extensive experience in the food and beverage industry and is currently Director of The Bar Beverage, Inc. and Choice Gourmet Banquet, Inc. She is Director and President of Raffles & Company, Inc.

**Gerardo C. Garcia**
Vice Chairman/Independent Director

Mr. Garcia, 72 years old, Filipino, is an independent director of the Company. He has been a member of the Company's Board of Directors since October 1994 and has served as Vice Chairman of the Board since December 1997. He also served as President of the Company from October 1994 until December 1997. He concurrently serves in the boards of Megaworld Corporation, Global-Estate Resorts, Inc., Suntrust Properties, Inc. and Megaworld Land, Inc. as independent director. Prior to joining the Company, Mr. Garcia was 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.

**Enrique Santos L. Sy**
Director

Mr. Sy, 64 years old, Filipino, was elected to the Board on 9 June 2009. Previously, he served as director of the Company from April 1996 to April 1998 and from June 1999 to December 23, 2008. Mr. Sy was Corporate Secretary of the Company from July 1994 until 31 March 2011. Mr. Sy concurrently serves in the boards of Megaworld Corporation and First Oceanic Property Management, Inc. He is Director and the Corporate Secretary of Asia Finest Cuisine, Inc. and the Corporate Secretary of Empire East Communities, Inc. Mr. Sy previously worked as Advertising Manager of Consolidated Distillers of the Far East, Inc., Creative Director of AdCentrum Advertising, Inc., Copy Chief of Admakers, Inc. and Peace Advertising Corporation and Creative Associate of Adformatix, Inc. Mr. Sy graduated with honors from the Ateneo de Manila University with the degree of Bachelor of Arts in Communication Arts.

**Evelyn G. Cacho**
Director/Vice President for Finance

Ms. Cacho, 52 years old, Filipino, has served as director of the Company since February 20, 2009. Ms. Cacho has served as Vice President for Finance of the Company since February 2001. Ms. Cacho joined the Company in February 1995. She currently serves as director of the Company's subsidiaries, Empire East Communities, Inc., Laguna BelAir School, Inc., Sonoma Premier Land, Inc., Valle Verde Properties, Inc. and Sherman Oak Holdings, Inc. She concurrently serves as Director in PSE-listed Suntrust Home Developers, Inc. She also holds the position of Treasurer of Megaworld Central

Properties, Inc. and Megaworld Newport Property Holdings, Inc. She is the Assistant Corporate Secretary of Gilmore Property Marketing Associates, Inc. Prior to joining the Company, she had extensive experience in the fields of financial/operations audit, treasury and general accounting from banks, manufacturing and trading companies. Ms. Cacho has a bachelor's degree in Business Administration major in Accounting.

**Alejo L. Villanueva, Jr.**
Independent Director

Mr. Villanueva, 72 years old, Filipino, is an independent director of the Company since June 2007. He is concurrently an independent director of Alliance Global Group, Inc. and Suntrust Home Developers, Inc. and a Director of First Capital Condominium Corporation, a non-stock, non-profit corporation. He is a professional consultant who has more than twenty years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse (BOT program, a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, summa cum laude. He has a master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

**Ricky S. Libago**
Senior Vice President for Property Development

Mr. Libago, 49 years old, Filipino, has served as Senior Vice President for Project Development since he joined the Company in July 2008. Prior to joining the Company, he worked with Citibank Japan for 3 years and Citibank Philippines/Citibank Asia Pacific for 5 years with the Corporate Realty Services Group. He also previously worked with Universal Rightfield Holdings, Inc. (a real estate joint venture company with DMCI), Megaworld Land, Inc. (a subsidiary of Megaworld), Ayala Property Management Corporation (a subsidiary of Ayala Land, Inc.) and Makati Development Development (the construction arm of Ayala Land, Inc.). Mr. Libago is a licensed Civil Engineer and a Sanitary Engineer. He obtained his Civil Engineering degree from Ateneo de Cagayan (Xavier University) and his Sanitary Engineering degree from the National University.

**Antonio E. Llantada, Jr.**
Vice President for Audit and Management Services

Mr. Llantada, 58 years old, Filipino, has served as Vice President for Audit and Management Services since December 1997. Before joining the Company, Mr. Llantada served in the Church of Jesus Christ of Latter-Day Saints for eleven years, holding various positions such as Area Materials Management Manager, Area Finance Manager, Purchasing Manager and Distribution Manager. He also worked with MB Finance, Inc. (formerly, Jardine Manila Finance, Inc.) as Internal Audit Manager and with SGV & Co. as Senior Auditor. Mr. Llantada is a member of the Philippine Institute of Certified Public Accountants. Mr. Llantada graduated from the De La Salle University in 1977 with the degree of Bachelor of Arts major in Behavioral Sciences, and in 1978 with the degree of Bachelor of Science in Commerce major in Accounting. In 1991, he obtained his Masters Degree in Business Administration from the Ateneo de Manila University.

**Ricardo B. Gregorio**
Vice President for Human Resources General and Administration Services

Mr. Gregorio, 51 years old, Filipino, has served as Vice President for Human Resources General and Administration Services since June 18, 2003. Prior to his appointment, Mr. Gregorio was Assistant Vice President for HRAD, Purchasing and Warehouse Department. He joined the Company in August 1997 as Purchasing Manager and served as such until October 1997. From November 1997 to December 1998, he served as HRAD and Purchasing Senior Manager of the Company. Mr. Gregorio is a certified public accountant by profession. He graduated cum laude from the Araullo University in 1988 with a bachelor's degree in Commerce major in accounting. In 2000, he obtained his Masters Degree in Business Administration from the University of the Philippines and in 2002, a diploma in Human Resource Management from the University of Santo Tomas.

**Jhoanna Lyndelou T. Llaga**
Vice President for Marketing

Ms. Llaga, 42 years old, Filipino has served as Vice President for Marketing since March 2011. She currently serves as director of Empire East Communities, Inc, the Company's subsidiary and as an SVP of Megaworld Central Properties, Inc., an affiliate. She joined the company in April 1995 and held various positions. She was appointed as Marketing Head in June 2003 and was promoted to Assistant Vice President for Marketing in July 2009. Ms. Llaga graduated from the University of the Philippines in March 1994 with the degree of Bachelor of Arts in English Language Studies.

**Giovanni C. Ng**
Treasurer

Mr. Ng, 40 years old, Filipino, has served as Treasurer of the Company since January 6, 2002. He is also the Finance Director of Megaworld Corporation and Treasurer of Adams Properties, Inc. and Townsquare Development, Inc. He serves as director in Eastwood Property Holdings, Inc., Oceantown Properties, Inc., Empire East Communities, Inc., Gilmore Property Marketing Associates, Inc., First Centro, Inc., Valle Verde Properties, Inc., Lucky Chinatown Cinemas, Inc. and New Town Land Partners, Inc. and Megaworld Land, Inc. Previously, he worked as Analyst Associate in Keppel IVI Investments. Mr. Ng obtained his bachelor's degree in Quantitative Economics from the University of Asia and the Pacific, graduating summa cum laude in 1995.

**Dennis E. Edaño**
Corporate Secretary

Mr. Edaño, 37 years old, Filipino, is the Corporate Secretary of the Company. He has been with the Company since September 2003 and currently heads the Legal & Corporate Affairs Department of the Company. Prior to his appointment as Corporate Secretary, Mr. Edaño was Assistant Corporate Secretary of the Company. Mr. Edaño has extensive experience in civil, criminal, administrative, labor and local taxation litigation, labor relations and real estate law. Prior to joining the Company, he was employed with the Yats International Ltd. as Legal Manager. Mr. Edaño obtained his bachelor's degree in Law in 1999 from the University of the Philippines and his bachelor's degree in Liberal Arts major in Philosophy from the same institution in 1995.

**Celeste Z. Sioson**
Assistant Corporate Secretary

Ms. Sioson, 37 years old, Filipino, is the Assistant Corporate Secretary of the Company. She joined the Company in October 2006 and is currently Assistant Vice President of the Legal and Corporate Affairs Department of the Company. Ms. Sioson obtained her bachelor's degree in Law from the University of the Philippines in 2002 and her bachelor's degree in Science major in Biology in 1998 from the same institution. She has extensive experience in civil, criminal, administrative, labor litigation, labor relations and real estate law. Prior to joining the Company, she was a Senior Associate at the Andres Marcelo Padernal Guerrero and Paras Law Offices and an Associate at the Ponce Enrile Reyes & Manalastas Law Offices.

**Financial Information**

Financial Statements of the Company and its subsidiaries (the “Group”) as of 31 December 2013, 2012 and 2011 and Interim Financial Statements as of 31 March 2014 are attached hereto and incorporated herein by reference.

**Management’s Discussion of Financial Condition and Results of Operations**

**Top Five (5) Key Performance Indicators**

The Company posted growth in sales and other revenues. Sales and marketing efforts have been intensified .The aggressive selling activities in prior years resulted to increase in current year’s sales.

**Ability to repay loan obligations**

All loans obligations were promptly settled. The Group maintains good credit standing with creditor banks and has considerable standby credit facilities which can be utilized for urgent capital requirements.

**Increase in reservation sales**

The Group’s product concepts, project location, flexible payment scheme and aggressive selling have contributed to the increase in reservation sales. The Marketing team constantly evaluates the needs of the market to determine the suitability of projects being offered to buyers. Most of the Group’s ongoing projects are connected to mass transit system while others are conveniently located in prime areas of Metro Manila and suburbs.

**Continuous development of projects**

The Group continuously undertakes construction and development activities and has been exerting efforts to deliver its projects within the commitment timetable. The Group’s Project Development team works closely with outside contractors particularly in monitoring and supervising the progress of construction.

**Landbanking**

The Group aims to acquire properties with strong growth and market potential. It has been continuously acquiring interests in properties through either outright acquisitions or joint venture arrangements with landowners. It intends to have sufficient properties for future development.

**RESULTS OF OPERATION**

**Review of 2013 versus 2012**

During the twelve-month period, the consolidated net profit amounted to P300.47 million, 27% higher than the previous year’s net profit of P236.02 million. Consolidated revenues, composed of real estate sales, interest income, commissions and other revenues which posted an increase of 17% from P2.52 billion to P2.95 billion. The increase in revenue is mainly due to increase in sales from various projects.

<u>Real Estate Sales</u>

The Group registered Real Estate Sales of P1.71 billion for twelve months ended December 31, 2013 compared with P1.38 billion in 2012. The sales generated were derived from various projects namely, Pioneer Woodlands, Little Baguio Terraces, San Lorenzo Place, The Rochester, Kasara Urban Resort Residences, Sonoma, The Cambridge Village, California Garden Square, Greenhills Garden Square, Xavier Hills and Laguna Bel Air Projects

The Cost of Real Estate Sales amounting to P1.15 billion in 2013 and P906.26 million in 2012, as a percentage of Real Estate Sales, was 68% and 66%, respectively. The change was primarily due to the type of products sold for each year.

Gross Profit was P553.24 million during the twelve months of 2013 and P475.15 million in 2012, or 32% and 34% of Real Estate Sales, respectively. The gross profit margin varies depending on the product mix and the competitiveness of prices of each product. Realized Gross Profit as a percentage of Real Estate Sales was recorded at 41% and 30% amounting to P693.60 million and P411.49 million in 2013 and 2012, respectively.

Other Revenues

The Finance income amounting to P492.58 million and P531.44 million in 2013 and 2012 respectively, were derived mostly from in-house financing and accounts for 17% and 21% of total revenues. Commission and other income totaling P559.27 million in 2013 and P529.23 million in 2012, represents 19% and 21% of total revenues, respectively. The other income includes rentals of investment property and residential/commercial spaces in various projects, equity in net earnings from associates and those obtained from other sources.

Operating Expenses

Operating Expenses posted an increase from P1.03 billion in 2012 to P1.15 billion in 2013. Other charges/expenses include Finance Cost of P126.57 million and P96.63 million in 2013 and 2012, respectively.

**FINANCIAL CONDITION**

Review of December 31, 2013 versus December 31, 2012

Total resources of the Group as of December 31, 2013 and December 31, 2012 amounted to P32.95 billion and P31.97 billion respectively. Cash and Cash Equivalents decreased from P3.03 billion to P504.47 million. The Group remained liquid with Total Current Assets of P22.03 billion in 2013 and P21.98 billion in 2012, which accounted for 67% and 69% of the Total Assets in 2013 and 2012, while its Total Current Liabilities amounted to P5.60 billion in December 31, 2013 as compared with P7.06 billion in December 31, 2012.

The Equity increase from P22.28 billion in the previous year to P24.79 billion as of December 31, 2013 was basically due to Group's Net Income for the twelve-month period, revaluation of equity investments held by a subsidiary and the additional subscription of shares by parent company.

For the year 2013, the Group sourced its major cash requirements from internally generated funds, subscription proceeds, disposal and sale of investment in associate and partly from borrowings.

The Group utilized its funds for construction and development of projects, land acquisition, settlement of loans and expenses for operations.

Material Changes in the 2013 Interim Financial Position
(increase/decrease of 5% or more in the 2013 Financial Position)

Balance Sheets

- 83% decrease in Cash and cash equivalents
  Mainly due to construction related payments and acquisition of properties

- 13% increase in Trade and other receivables
  Due to increase in real estate sales

- 13% increase in Residential and condominium units for sale
  Due to ongoing construction and development activities

- 9% increase in Property development cost
  Due to ongoing construction and development activities

- 22% increase in Advances to related parties
  Mainly due to reclassification of account

- 14% increase in Prepayments
  Due to increase in Input Vat on purchases and prepaid taxes related to transfer of titles

- 12% increase in Land held for future development
  Mainly due to acquisition of properties

- 54% increase in Available-for-sale financial assets
  Primarily due to increase in fair market value of investment in securities held by a subsidiary

- 70% decrease in Investment in associates
  Due to sale of the company's stake in associate to its parent company

- 8% decrease in Investment properties
  Due to depreciation charges

- 6% decrease in Property and equipment-net
  Mainly due to depreciation charges

- 44% decrease in Interest-bearing loans and borrowings
  Due to payment of loans

- 54% decrease in Trade and other payables
  Pertains to payments to contractors and suppliers

- 45% decrease in Deferred gross profit on real estate sales
  Primarily due to increase in construction accomplishments

- 8% increase in Customers' deposit
  Mainly due to increase in reservation sales and collection from various projects

- 40% decrease in Advances from related parties
  Due to payment of advances from associates

- 12% decrease in Reserve for property development
  Due to continuous construction works of various projects

- 55% increase in Other current liabilities
  Primarily due to increase in retention payable applicable to contractors

- 6% increase in Deferred tax liabilities
  Mainly due to increase in income subject to tax

- 92% increase in Retirement benefit obligation
  Due to accrual of retirement obligation for the year and the effect of revised PAS 19 on Employee Benefits

Statements of Comprehensive Income

- 23% increase in Real estate sales
  Due to higher sales recognized particularly for current projects

- 140% increase in Realized gross profit on prior years' sale

Primarily due to increase in construction accomplishment of ongoing projects

- 7% decrease in Finance income
  Primarily due to varying payment terms of accounts under in-house financing

- 59% decrease in Equity in net earnings of associates
  Primarily due to sale of the company's stake in associate to its parent company

- 170% increase in Rental income
  Mainly due to rental income recognized from the existing retail component of a newly acquired property

- 27% increase in Cost of real estate sales
  Mainly due to increase in sales

- 63% decrease in Deferred gross profit on current year's sales
  Mainly due to construction accomplishments of ongoing projects

- 31% increase in Finance costs
  Mainly due to additional construction related advances

- 12% increase in Operating expenses
  Due to additional manpower and increase in other administrative/overhead expenses

- 127% increase in Tax expense
  Mainly due to increase in taxable income

For the year 2014, the projected capital expenditures (construction/development) of roughly P4.0 billion is expected to be funded by collections, borrowings and equity financing.

Fluctuations in foreign exchange rate had no adverse effect on the Group's financial conditions since the Group has very minimal importations of construction-related materials and have no foreign denominated loans.

There are no other material changes in the Group's financial position and condition (5% or more) that will warrant a more detailed discussion. Likewise, there are no material events and uncertainties known to the management that would have material impact on reported financial information and normal operations of the Group.

The nature of all revenues and expenses disclosed in the statement of comprehensive income are business related transactions and arose from the Group's continuing operations. Also, no prior period adjustment was made during any period covered by statement of financial position.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

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

The Group is aggressively marketing its products specially the new projects. It continuously offers competitive prices, more lenient payment schemes under in-house financing and has strong tie-ups with reputable banks for the financing requirements of its buyers.

**Top Five (5) Key Performance Indicators**

For 2012, the following are top key performance indicators of the Group:

| | **2012** | **2011** |
|---|---|---|
| Sales | P1.38 Billion | P983 Million |
| Net Income | P235 Million | P186 Million |
| Earnings per share | P.021 | P.017 |
| Quick Ratio * | .79:1 | .73:1 |
| Debt to Equity Ratio ** | .02:1 | .03:1 |

** Cash and Cash Equivalents+Financial Assets+Trade and Other Receivables/Total Current Liabilities*
*** Interest Bearing Loans Borrowings/ Equity*

Other indicators:

- *Increase in reservation sales*

  The Group's marketing concepts and sales strategies, project location, flexible payment scheme and aggressive selling have contributed to the increase in reservation sales. The Group's new projects are connected to mass transit system and are conveniently located in business districts of Metro Manila

- *Continuous construction and development activities*

  The Group aggressively undertakes construction and development activities and has been exerting efforts to deliver its projects within the commitment timetable.

- *Landbanking*

  The Group has been continuously acquiring interests in properties through either outright acquisitions or joint venture arrangements with landowners. It intends to have sufficient properties for development within the next 5 to 7 years.

*RESULTS OF OPERATION*

*Review of 2012 versus 2011*

During the twelve-month period, the consolidated net profit amounted to P235.35 million, 26% higher than the previous year's net income of P186.12 million. Consolidated revenues, composed of real estate sales, finance, commissions and other revenues which posted an increase of 29% from P1.95 billion to P2.52 billion. The increase in revenue is mainly due to increase in sales from various projects.

<u>Real Estate Sales</u>

The Group registered Real Estate Sales of P1.38 billion for twelve months ended December 31, 2012 compared with P.98 billion in 2011. The sales were derived from various projects namely, Pioneer Woodlands, San Lorenzo Place, The Sonoma, Little Baguio Terraces, The Cambridge Village, California Garden Square, Greenhills Garden Square and Laguna BelAir.

The Cost of Sales amounting to P906.3 million in 2012 and P746.1 million in 2011, as a percentage of Real Estate Sales, was 66% and 76%, respectively. The change was primarily due to the type of products sold for each year.

Gross Profit was P475.1 million during the twelve months of 2012 and P237.4 million in 2011, or 34% and 24% of Real Estate Sales, respectively. The gross profit margin varies depending on the product mix and the competitiveness of prices of each product. Realized Gross Profit as a percentage of Real

Estate Sales was recorded at 30% and 25% amounting to P411.5 million and P243.1 million in 2012 and 2011, respectively.

**Other Revenues**

The Finance income amounting to P490.9 million and P381.4 million in 2012 and 2011 respectively, were derived mostly from in-house financing and accounts for 19% and 20% of total revenues. Commission and other income totaling P569.8 million in 2012 and P481.7 million in 2011, represents 23% and 25% of total revenues, respectively. The other income includes rentals of investment property and residential/commercial spaces in various projects, equity in net earnings from associates and those obtained from other sources.

**Operating Expenses**

Operating Expenses posted an increase from P0.78 billion in 2011 to P1.04 billion in 2012. Corporate overhead increased due to additional expenses incurred in promoting sales, additional manpower to support the operations and general increase in commodities/services. Other charges/expenses include Finance Cost of P84.2 million and P51.6 million in 2012 and 2011, respectively.

FINANCIAL CONDITION

Review of December 30, 2012 versus December 31, 2011

Total resources of the Group as of December 31, 2012 and December 31, 2011 amounted to P31.98 billion and P25.71 billion respectively. Cash and Cash Equivalents increased from P0.83 billion to P3.03 billion. The Group remained liquid with Total Current Assets of P21.98 billion in 2012 and P17.07 billion in 2011, which accounted for 69% and 66% of the Total Assets in 2012 and 2011, while its Total Current Liabilities amounted to P7.1 billion in December 31, 2012 as compared with P4.2 billion in December 31, 2011.

The Equity increase from P18.2 billion in the previous year to P21.7 billion as of December 31, 2012 was basically due to increase in capital stock.

For the year 2012, the Group sourced its major cash requirements from internally generated funds and partly from collections of certain advances and borrowings.

The Group utilized its funds for loan repayments, construction and development of projects, and settlement of various payables and other operating expenses.

Material Changes in the 2012 Interim Financial Statements
(increase/decrease of 5% or more in the 2012 Financial Statements)

Balance Sheets

- 266% increase in Cash and Cash Equivalents
  Mainly due to receipt of proceeds from stock rights offer

- 18% increase in Trade and Other Receivables
  Mainly due to increase in sales

- 20% increase in Residential and Condominium Units for Sale
  Primarily due to ongoing construction and development activities

- 10% increase in Property Development Costs
  Mainly due to reclassification of account from Land for Future Development

- 100% decrease in Financial Assets at Fair Value through Profit or Loss
  Mainly due to deconsolidation of a subsidiary

- 11% increase in Prepayments
  Due to increase in prepaid taxes related to transfer of titles

- 43% increase in Other Current Assets
  Mainly due to increase in input vat on various purchases and construction-related payments

- 13% decrease in Advances to Landowners and Joint Venture
  Due to reclassification to Land for Future Development account

- 14% increase in Available for Sale Financial Assets
  Mainly due to increase in fair value of investment in securities held by subsidiaries

- 18% increase in Land for Future Development
  Due to additional acquisition of land

- 64% increase in Investment in Associates
  Mainly due to deconsolidation of a subsidiary

- 13% decrease in Investment Property
  Due to depreciation charges

- 100% increase in Deferred Tax Assets
  Mainly due to reclassification of account of a subsidiary

- 72% decrease in Other Non-Current Assets
  Mainly due to deconsolidation of a subsidiary

- 39% decrease in Interest-bearing Loans and Borrowings
  Due to repayment of loans

- 195% increase in Trade and Other Payables
  Various payables to contractors and suppliers due to increasing construction activities

- 17% increase in Customers' Deposits
  Mainly due to increase in reservation sales and collections from various projects

- 25% increase in Deferred Gross Profit on Real Estate Sales
  Due to increase in sales of projects with ongoing development

- 27% increase in Reserve for Property Development
  Pertains to the estimated cost to complete the development/construction of sold units

- 209% increase in Advances from Related Parties
  Mainly due to construction related advances

- 33% increase in Other Current Liabilities
  Due to increase in payable to suppliers and contractors

- 26% increase in Retirement Benefit Obligation
  Due to accrual of retirement obligation for the year

Income Statements

- 40% increase in Real Estate Sales
  Due to aggressive selling of projects

- 24% decrease in Realized Gross Profit on Prior Years' Sale
  Due to completion / increase in construction accomplishments of some projects

- 29% increase in Finance Income
  Primarily due to increase in interest income realized from accounts under in-house financing

- 5% decrease in Rental Income
  Due to expiration of contract of lease of certain tenant

- 9% increase in Other Income
  Due to increase in income from other related sources

- 407% increase in Equity in Net Earnings of an Associate
  Due to increase in earnings of an associate

- 21% increase in Cost of Real Estate Sales
  Primarily due to increase in sales

- 43% increase in Deferred Gross Profit Current Year's Sales
  Due to increase in sales of projects with ongoing development

- 35% decrease in Loss from Dilution of a Subsidiary
  Mainly due to deconsolidation of a subsidiary

- 63% increase in Finance Cost
  Due to additional interest-bearing advances

- 34% increase in Operating Expenses
  Primarily due to increase in marketing, manpower and other administrative expenses

- 115% increase in Tax Expense
  Due to increase in taxable income

For the year 2013, the projected capital expenditures (construction/development) of roughly P4.0 billion is expected to be funded by collections, borrowings and equity financing.

Fluctuations in foreign exchange rate had no adverse effect on the Group's financial conditions since the Group has very minimal importations of construction-related materials and have no foreign denominated loans.

There are no other material changes in the Group's financial position and condition (5% or more) that will warrant a more detailed discussion. Likewise, there are no material events and uncertainties known to the management that would have material impact on reported financial information and normal operations of the Group.

The nature of all revenues and expenses disclosed in the statement of comprehensive income are business related transactions and arose from the Group's continuing operations. Also, no prior period adjustment was made during any period covered by statement of financial position.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

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

The Group is aggressively marketing its products specially the new projects. It continuously offers competitive prices, more lenient payment schemes under in-house financing and has strong tie-ups with reputable banks for the financing requirements of its buyers.

**Top Five (5) Key Performance Indicators**

**For 2011, the following are the top key performance indicators:**

**Increase in Revenue**

The Company registered a significant growth in revenues. Sales and marketing efforts have been intensified .The aggressive selling activities in prior years resulted to increase in sales.

**Ability to repay loan obligations**

All loans obligations were promptly settled. The Group maintains good credit standing with creditor banks and has considerable standby credit facilities which can be utilized for urgent capital requirements.

**Increase in reservation sales**

The Group's product concepts, project location, flexible payment scheme and aggressive selling have contributed to the increase in reservation sales. The Marketing team constantly evaluates the needs of the market to determine the suitability of projects being offered to buyers. Most of the Group's ongoing projects are connected to mass transit system while others are conveniently located in prime areas of Metro Manila and suburbs.

**Continuous development of projects**

The Group continuously undertakes construction and development activities and has been exerting efforts to deliver its projects within the commitment timetable. The Group's Project Development team works closely with outside contractors particularly in monitoring and supervising the progress of construction.

**Landbanking**

The Group aims to acquire properties with strong growth and market potential. It has been continuously acquiring interests in properties through either outright acquisitions or joint venture arrangements with landowners. It intends to have sufficient properties for development within the next 5 to 10 years.

**RESULTS OF OPERATION**

**Review of 2011 versus 2010**

During the twelve-month period, the consolidated net income amounted to P186.12 million, 26% lower than the previous year's net income of P250.26 million. Consolidated revenues, composed of real estate sales, interest income, commissions and other revenues which posted a decrease of 13% from P2.25 billion to P1.95 billion.

<u>Real Estate Sales</u>

The Group registered Real Estate Sales of P.98 billion for twelve months ended December 31, 2011 compared with P1.07 million in 2010. The booked sales were derived from various projects namely, California Garden Square, Little Baguio Terraces, Pioneer Woodlands, The Cambridge Village, San Lorenzo Place, Kasara Urban Resort Residences, Laguna Bel Air Projects and The Sonoma.

The Cost of Sales amounting to P746.1 million in 2011 and P743.2 million in 2010, as a percentage of Real Estate Sales, was 76% and 70%, respectively. The change was primarily due to the type of products sold for each year.

Gross Profit was P237.39 million during the twelve months of 2011 and P325.24 million in 2010, or 24% and 30% of Real Estate Sales, respectively. The gross profit margin varies depending on the product mix and the competitiveness of prices of each product. Realized Gross Profit as a percentage of Real

Estate Sales was recorded at 25% and 26% amounting to P243.14 million and P279.45 million in 2011 and 2010, respectively.

Other Revenues

In 2011, the finance income amounting to P381.4 million was derived mostly from buyers' in-house financing while in 2010, the P641.4 million came from both in-house financing and the sale of certain financial assets of a subsidiary. This accounts for 20% and 28% of total revenues. On the other hand, the commission and other income totaling P588.4 million in 2011 and P542.7 million in 2010, represents 30% and 24% of total revenues, respectively. The other income includes rentals of investment property and residential/commercial spaces in various projects, and those obtained from other sources.

Operating Expenses

Operating Expenses posted a decrease from P1 billion in 2010 to P0.78 billion in 2011. Other charges/expenses include Finance Cost of P51.6 million and P75.1 million in 2011 and 2010, respectively.

**FINANCIAL CONDITION**

Review of December 30, 2011 versus December 31, 2010

Total resources of the Group as of December 31, 2011 and December 31, 2010 amounted to P25.7 billion and P27.8 billion respectively. Cash and Cash Equivalents decreased from P1.5 billion to P0.83 billion. The Group remained liquid with Total Current Assets of P17.1 billion in 2011 and P17.2 billion in 2010, which accounted for 66% and 62% of the Total Assets in 2011 and 2010, while its Total Current Liabilities amounted to P4.2 billion in December 31, 2011 as compared with P4.9 billion in December 31, 2010.

The decrease in Equity from P18.4 billion in the previous year to P18.2 billion as of December 31, 2011 was basically due to revaluation reserves applicable to equity investments.

In 2011, the Group sourced its major cash requirements from internally generated funds and partly from collection of certain advances. While in 2010, cash was sourced mostly from internal funds and partly from the discounting of its installment contract receivable.

The Group utilized its funds for construction and development of projects, land acquisition, loan payments and settlement of various payables/operating expenses.

Material Changes in the 2011 Interim Financial Statements
(increase/decrease of 5% or more in the 2011 Financial Statements)

Balance Sheets

- 45% decrease in Cash and Cash Equivalents
  Mainly due to payments to contractors, suppliers and settlement of loans

- 23% decrease in Trade and Other Receivables
  Mainly due to deconsolidation of a subsidiary

- 31% increase in Residential and Condominium Units for Sale
  Mainly due to costs attributed to the construction of ongoing projects

- 48% decrease in Property Development Costs
  Due to reclassification of account and deconsolidation of a subsidiary

- 201% increase in Advances to Related Parties
  Mainly due to deconsolidation of a subsidiary

- 100% increase in Financial Assets at Fair Value through Profit or Loss
  Mainly due to increase in fair value of investment in securities held by a subsidiary

- 11% increase in Other Current Assets
  Mainly due to input vat on increasing purchases and construction-related payments

- 43% decrease in Advances to Landowners and Joint Venture
  Mainly due to cancelled purchase transaction and deconsolidation of a subsidiary

- 20% decrease in Available for Sale Financial Assets
  Due to changes in market value of financial assets held by subsidiaries

- 18% decrease in Land for Future Development
  Due to reclassification of cost of the land to Residential and Condominium Units for Sale when the project starts its development

- 7% decrease in Investment Property
  Mainly due to depreciation charges

- 56% decrease in Other Non-Current Assets
  Mainly due to deconsolidation of a subsidiary

- 56% decrease in Interest-bearing Loans and Borrowings
  Due to payment of loans and deconsolidation of a subsidiary

- 29% decrease in Trade and Other Payables
  Mainly due to deconsolidation of a subsidiary

- 15% decrease in Customers' Deposits
  Net effect of increase in reservation sales and decrease due to booked sales and deconsolidation of a subsidiary

- 30% decrease in Deferred Gross Profit on Real Estate Sales
  Mainly due to deconsolidation of a subsidiary

- 22% decrease in Reserve for Property Development
  Due to continuous construction and development of projects

- 21% increase in Advances to Related Parties
  Mainly due to advances for construction related activities

- 8% decrease in Other Current Liabilities
  Mainly due to deconsolidation of a subsidiary

- 43% decrease in Revaluation Reserves
  Due to changes in market value of financial assets held by subsidiaries

Income Statements

- 8% decrease in Real Estate Sales
  Due to net effect of increase in sales and deconsolidation of a subsidiary

- 41% decrease in Finance Income
  Due to deconsolidation of a subsidiary and decrease in sale of marketable equity securities held by a subsidiary

- 36% increase in Commission Income
  Mainly due to additional efforts of a subsidiary in marketing the properties of related parties

- 48% increase in Realized Gross Profit on Prior Years' Sales
  Mainly due to increase in construction accomplishment of various projects

- 100% increase in Equity in Net Earnings of as Associate
  Due to deconsolidation of a subsidiary

- 15% decrease in Other Income
  Primarily due to deconsolidation of a subsidiary

- 15% decrease in Deferred Gross Profit on Current Year's Sales
  Due to increase in construction and development activities

- 31% decrease in Finance Cost
  Mainly due to payment of loans

- 100% increase in Loss from Dilution of a Subsidiary
  Mainly due to deconsolidation of a subsidiary

- 23% decrease in Operating Expenses
  Primarily due to deconsolidation of a subsidiary

- 100% decrease in Preacquisition Income
  Due to no additional acquisition of subsidiary during the year

- 33% increase in Tax Expense
  Due to increase in taxable income

For the year 2012, the projected capital expenditures (construction/development) of roughly P3.0 billion is expected to be funded by collections, borrowings and equity financing.

Fluctuations in foreign exchange rate had no significant effect on the Group's financial conditions since the Group has very minimal importations of construction-related materials and have no foreign denominated loans.

There are no other material changes in the Group's financial position and condition (5% or more) that will warrant a more detailed discussion. Likewise, there are no material events and uncertainties known to the management that would have material impact on reported financial information and normal operations of the Group.

The nature of all revenues and expenses disclosed in the statement of comprehensive income are business related transactions and arose from the Group's continuing operations. Also, no prior period adjustment was made during any period covered by statement of financial position.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

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

The Group is aggressively marketing its products specially the new projects. It continuously offers competitive prices, more lenient payment schemes under in-house financing and has strong tie-ups with reputable banks for the financing requirements of its buyers.

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

External Audit Fees and Services

The Company's external auditor, Punongbayan & Araullo, billed the amounts of Php1,600,000 in 2013 and Php1,560,000 in 2012 exclusive of VAT, in professional fees for services rendered by it for the audit of the Company's annual financial statements and services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2013 and 2012.

Apart from the foregoing, no other services were rendered or fees billed by the Company's external auditors for 2013 and 2012.

The engagement of Punongbayan & Araullo and the handling partner is approved by the Board of Directors in consultation with its Audit Committee and by the stockholders of the Company. The selection of external auditors is made on the basis of credibility, professional reputation, accreditation with the Philippine Securities and Exchange Commission, and affiliation with a reputable foreign partner. The professional fees of the external auditors of the Company are approved by the Company's Audit Committee after approval by the stockholders of the engagement and prior to the commencement of each audit season.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Company complied with SRC Rule 68(3)(b)(iv) and the Company's Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the signing partner changed after five (5) years of engagement. A two-year cooling off period shall be observed in the re-engagement of the same signing partner. In this regard, starting the year ending 31 December 2011, Mr. Nelson Dinio, one of the Audit and Assurance Partners of Punongbayan and Araullo (P&A), was designated as the signing partner for the audit of the Company's financial statements. Ms. Mailene Sigue-Bisnar, also one of the Audit and Assurance Partners of P&A, handled the audit of the Company's financial statements for the past five years from 2006 to 2010.

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 and its subsidiaries.

**The Company shall provide, without charge, to each stockholder a copy of its annual report on SEC Form 17-A, upon written request addressed to Empire East Land Holdings, Inc., Attention: Mr. Dennis E. Edaño, Corporate Secretary, 28 Floor The World Centre, 330 Sen. Gil Puyat Avenue, Makati City.**

# AUDITED FINANCIAL STATEMENTS

# OF EMPIRE EAST LAND HOLDINGS, INC.

# AND SUBSIDIARIES

## FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Empire East

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Empire East Land Holdings, Inc. and subsidiaries** (the Group) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012, in accordance with Philippine Financial Reporting Standards, 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
f. Schedule of Proceeds and Expenditures for the Recent Stock Rights Offering;

Management responsibility on the 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, including the additional supplemental information, and submits the same to the stockholders.

**Punongbayan & Araullo**, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and, 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

**ANTHONY CHARLEMAGNE C. YU**
Chief Executive Officer

**EVELYN G. CACHO**
Chief Financial Officer

**Empire East Land Holdings, Inc.**
21/F The World Centre, 330 Sen. Gil Puyat Avenue Extension, Makati City 1200, Philippines • Tels: (632) 867-8351 to 59

SUBSCRIBED AND SWORN to me before this APR 22 2014 of 2014 affiant exhibiting to me their Community Tax Certificate No. as follows:

| | | | |
|---|---|---|---|
| Andrew L. Tan | 07668465 | January 06, 2014 | Quezon City |
| Anthony Charlemagne C. Yu | 10862568 | January 13, 2014 | Makati City |
| Evelyn G. Cacho | 10848199 | January 06, 2014 | Makati City |

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Book No. XXIII
Series of 2014

CELESTE Z. SIOSON
NOTARY PUBLIC
ROLL NO. 48369
MAKATI CITY, PHILIPPINES

Celeste Z. Sioson
Notary Public
Until 31 December 2014
ime IBP No. 924749; 01.11.13; Quezon
PTR No. 4237962; 01.13.14; Makati City
Roll No. 48369; 03.24.03
24/F The World Centre Building
330 Sen. Gil Puyat Ave., Makati City
Tel. No. 867-8018

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors

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**The Board of Directors and Stockholders**
**Empire East Land Holdings, Inc. and Subsidiaries**
***(A Subsidiary of Megaworld Corporation)***
21st Floor, The World Centre Building
330 Sen. Gil Puyat Avenue, Makati City

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 22 2014
RECEIVED
VERONICA PALENCIA

We have audited the accompanying consolidated financial statements of Empire East Land Holdings, 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 each of the three years in the period ended December 31, 2013, 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 Empire East Land Holdings, Inc. and Subsidiaries as at December 31, 2013 and 2012, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2013 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)

March 7, 2014

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2013 AND 2012**
***(With Corresponding Figures as of January 1, 2012)***
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|---|---|---|---|
| **A S S E T S** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 5 | **P 504,471,331** | P 3,033,222,982 | P 827,666,321 |
| Trade and other receivables - net | 6 | **2,979,566,315** | 2,590,588,931 | 2,226,231,335 |
| Advances to related parties | 22 | **2,053,791,774** | 1,687,392,195 | 1,631,182,339 |
| Residential and condominium units for sale | 7 | **12,824,659,670** | 11,342,431,118 | 9,456,554,184 |
| Property development costs | 7 | **2,902,642,906** | 2,659,616,892 | 2,423,789,010 |
| Prepayments and other current assets | 2 | **760,206,175** | 666,244,553 | 501,974,011 |
| Total Current Assets | | **22,025,338,171** | 21,979,496,671 | 17,067,397,200 |
| **NON-CURRENT ASSETS** | | | | |
| Trade and other receivables - net | 6 | **2,421,692,485** | 2,194,358,817 | 1,835,563,506 |
| Advances to landowners and joint ventures | 8 | **787,075,245** | 822,584,793 | 940,216,193 |
| Land held for future development | 9 | **4,088,300,118** | 3,662,752,341 | 3,111,506,103 |
| Investment in associates | 10 | **293,372,235** | 970,146,246 | 592,414,710 |
| Available-for-sale financial assets | 11 | **2,905,080,000** | 1,887,176,000 | 1,652,746,082 |
| Investment property - net | 12 | **185,552,516** | 202,357,339 | 233,621,784 |
| Property and equipment - net | 13 | **160,370,094** | 171,065,623 | 176,529,059 |
| Other non-current assets | 11 | **84,458,536** | 84,746,150 | 100,897,875 |
| Total Non-current Assets | | **10,925,901,229** | 9,995,187,309 | 8,643,495,312 |
| **TOTAL ASSETS** | | **P 32,951,239,400** | P 31,974,683,980 | P 25,710,892,512 |

| | Notes | 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Interest-bearing loans and borrowings | 14 | **P 71,200,342** | P 152,989,611 | P 221,870,556 |
| Trade and other payables | 15 | **438,132,758** | 948,441,503 | 321,219,814 |
| Deferred gross profit on real estate sales | 2 | **49,703,647** | 90,416,874 | 47,369,747 |
| Customers' deposits | 16 | **2,957,368,755** | 2,739,542,408 | 2,345,829,862 |
| Advances from related parties | 22 | **1,643,353,984** | 2,750,593,347 | 901,155,124 |
| Reserve for property development | 2 | **132,642,060** | 175,551,262 | 200,022,819 |
| Income tax payable | | **7,267,113** | 7,053,140 | 7,020,264 |
| Other current liabilities | 17 | **305,700,294** | 197,271,282 | 148,623,630 |
| Total Current Liabilities | | **5,605,368,953** | 7,061,859,427 | 4,193,111,816 |
| **NON-CURRENT LIABILITIES** | | | | |
| Interest-bearing loans and borrowings | 14 | **148,530,809** | 236,893,851 | 417,377,123 |
| Deferred gross profit on real estate sales | 2 | **125,286,085** | 224,930,063 | 204,313,730 |
| Reserve for property development | 2 | **815,738,947** | 906,875,613 | 654,934,198 |
| Retirement benefit obligation | 20 | **288,880,437** | 150,302,400 | 123,982,926 |
| Deferred tax liabilities - net | 21 | **1,177,480,246** | 1,114,258,209 | 1,084,714,978 |
| Total Non-current Liabilities | | **2,555,916,524** | 2,633,260,136 | 2,485,322,955 |
| Total Liabilities | | **8,161,285,477** | 9,695,119,563 | 6,678,434,771 |
| **EQUITY** | | | | |
| Capital stock | 23 | **14,803,455,238** | 13,603,455,238 | 10,908,215,404 |
| Additional paid-in capital | | **4,307,887,996** | 4,247,887,996 | 4,281,564,705 |
| Treasury stock - at cost | 23 | **( 102,106,658 )** | ( 102,106,658 ) | ( 116,233,808 ) |
| Revaluation reserves | | **1,980,515,883** | 1,030,385,774 | 452,715,833 |
| Retained earnings | 23 | **3,186,793,388** | 2,887,326,539 | 2,652,723,154 |
| Equity attributable to parent company's shareholders | | **24,176,545,847** | 21,666,948,889 | 18,178,985,288 |
| Non-controlling interest | | **613,408,076** | 612,615,528 | 853,472,453 |
| Total Equity | | **24,789,953,923** | 22,279,564,417 | 19,032,457,741 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 32,951,239,400** | P 31,974,683,980 | P 25,710,892,512 |

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

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| **REVENUES AND INCOME** | | | | |
| Real estate sales | 2 | **P 1,705,620,061** | P 1,381,413,611 | P 983,531,150 |
| Finance income | 19 | **492,576,792** | 531,444,542 | 425,850,050 |
| Commissions | 22 | **147,636,430** | 149,623,356 | 149,817,650 |
| Realized gross profit on prior years' sales | 2 | **193,650,909** | 80,660,991 | 106,695,654 |
| Rental income | 12 | **121,363,871** | 45,025,948 | 47,590,819 |
| Equity share in net earnings of associates | 10 | **34,635,124** | 83,770,918 | 16,509,892 |
| Other income | 18 | **255,633,125** | 250,814,251 | 223,381,483 |
| | | **2,951,116,312** | 2,522,753,617 | 1,953,376,698 |
| **COSTS AND EXPENSES** | | | | |
| Cost of real estate sales | 2 | **1,152,377,269** | 906,264,248 | 746,144,272 |
| Deferred gross profit on current year's sales | 2 | **53,293,704** | 144,324,450 | 100,944,119 |
| Salaries and employee benefits | 20 | **255,508,254** | 191,024,216 | 154,688,597 |
| Commissions | | **190,078,824** | 176,184,120 | 149,499,244 |
| Finance costs | 19 | **126,572,738** | 96,630,630 | 58,317,356 |
| Taxes and licenses | 12 | **125,442,799** | 39,573,594 | 26,381,737 |
| Travel and transportation | | **108,794,974** | 117,177,770 | 90,438,432 |
| Advertising and promotion | | **101,628,164** | 196,150,807 | 141,923,280 |
| Depreciation and amortization | 12, 13 | **37,015,034** | 38,394,105 | 32,696,704 |
| Loss from dilution of investment in subsidiary | 10 | **-** | 37,501,256 | 57,824,732 |
| Other expenses | 18 | **329,796,416** | 268,719,399 | 173,395,841 |
| Tax expense | 21 | **170,136,355** | 74,787,036 | 34,758,701 |
| | | **2,650,644,531** | 2,286,731,631 | 1,767,013,015 |
| **NET PROFIT** | | **300,471,781** | 236,021,986 | 186,363,683 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Item that will not be reclassified subsequently through profit or loss:** | | | | |
| Remeasurements on retirement benefit obligation | 20 | **( 96,792,260 )** | ( 3,699,968 ) | ( 32,155,409 ) |
| Tax income on remeasurement | 21 | **28,805,985** | 929,818 | 9,487,970 |
| | | **( 67,986,275 )** | ( 2,770,150 ) | ( 22,667,439 ) |
| **Item that will be reclassified subsequently through profit or loss:** | | | | |
| Fair value gains (losses) on available-for-sale financial assets | 11 | **1,017,904,000** | 722,892,000 | ( 391,715,040 ) |
| Reclassification of unrealized fair value gains on disposed AFS financial assets to profit and loss | | **-** | ( 221,000,000 ) | ( 11,591,269 ) |
| | | **1,017,904,000** | 501,892,000 | ( 403,306,309 ) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **P 1,250,389,506** | P 735,143,836 | ( P 239,610,065 ) |
| **Net profit attributable to:** | | | | |
| Parent company's shareholders | | **P 299,466,849** | P 234,603,385 | P 179,624,379 |
| Non-controlling interest | | **1,004,932** | 1,418,601 | 6,739,304 |
| | | **P 300,471,781** | P 236,021,986 | P 186,363,683 |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Parent company's shareholders | | **P 1,249,596,958** | P 733,890,393 | ( P 195,280,588 ) |
| Non-controlling interest | | **792,548** | 1,253,443 | ( 44,329,477 ) |
| | | **P 1,250,389,506** | P 735,143,836 | ( P 239,610,065 ) |
| **EARNINGS PER SHARE** | | | | |
| Basic | 24 | **P 0.021** | P 0.021 | P 0.017 |
| Diluted | 24 | **P 0.021** | P 0.021 | P 0.017 |

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

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | Attributable to Parent Company's Shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Capital Stock | Additional Paid-in-Capital | Treasury Stock | Revaluation Reserves | Retained Earnings | Total | Non-controlling Interest | Total |
| Balance at January 1, 2013 | | | | | | | | | |
| As previously reported | 23 | P 13,603,455,238 | P 4,247,887,996 | ( P 102,106,658 ) | P 1,054,226,000 | P 2,888,249,604 | P 21,691,712,180 | P 612,916,679 | P 22,304,628,859 |
| Prior period adjustment, net of tax | 2 | - | - | - | ( 23,840,226 ) | ( 923,065 ) | ( 24,763,291 ) | ( 301,151 ) | ( 25,064,442 ) |
| As restated | | 13,603,455,238 | 4,247,887,996 | ( 102,106,658 ) | 1,030,385,774 | 2,887,326,539 | 21,666,948,889 | 612,615,528 | 22,279,564,417 |
| Transactions with owners: | | | | | | | | | |
| Additional subscription during the year | 23 | 1,200,000,000 | 60,000,000 | - | - | - | 1,260,000,000 | - | 1,260,000,000 |
| Total comprehensive income for the year: | | | | | | | | | |
| Net profit for the year | | - | - | - | - | 299,466,849 | 299,466,849 | 1,004,932 | 300,471,781 |
| Fair value gains on available-for-sale financial assets | | - | - | - | 1,017,904,000 | - | 1,017,904,000 | - | 1,017,904,000 |
| Remeasurements on retirement benefit obligation | 2, 20 | - | - | - | ( 96,579,876 ) | - | ( 96,579,876 ) | ( 212,384 ) | ( 96,792,260 ) |
| Tax income on remeasurement | 2, 21 | - | - | - | 28,805,985 | - | 28,805,985 | - | 28,805,985 |
| Balance at December 31, 2013 | 23 | P 14,803,455,238 | P 4,307,887,996 | ( P 102,106,658 ) | P 1,980,515,883 | P 3,186,793,388 | P 24,176,545,847 | P 613,408,076 | P 24,789,953,923 |
| Balance at January 1, 2012 | 23 | | | | | | | | |
| As previously reported | | P 10,908,215,404 | P 4,281,564,705 | ( P 116,233,808 ) | P 473,951,067 | P 2,654,315,360 | P 18,201,812,728 | P 853,612,716 | P 19,055,425,444 |
| Prior period adjustment, net of tax | 2 | - | - | - | ( 21,235,234 ) | ( 1,592,206 ) | ( 22,827,440 ) | ( 140,263 ) | ( 22,967,703 ) |
| As restated | | 10,908,215,404 | 4,281,564,705 | ( 116,233,808 ) | 452,715,833 | 2,652,723,154 | 18,178,985,288 | 853,472,453 | 19,032,457,741 |
| Transactions with owners: | | | | | | | | | |
| Additional subscription during the year | 23 | 2,695,239,834 | - | - | - | - | 2,695,239,834 | - | 2,695,239,834 |
| Direct costs in issuance of shares of stock | | - | ( 33,676,709 ) | - | - | - | ( 33,676,709 ) | - | ( 33,676,709 ) |
| Reduction in noncontrolling interest representing the shares held by a deconsolidated subsidiary | | - | - | 14,127,150 | - | - | 14,127,150 | - | 14,127,150 |
| Deconsolidation of balance related to GPMAI | | - | - | - | 78,382,933 | - | 78,382,933 | - | 78,382,933 |
| Total comprehensive income for the year: | | | | | | | | | |
| Net profit for the year | | - | - | - | - | 234,603,385 | 234,603,385 | 1,418,601 | 236,021,986 |
| Available-for-sale financial assets: | | | | | | | | | |
| Fair value gains on available-for-sale financial assets | | - | - | - | 722,892,000 | - | 722,892,000 | - | 722,892,000 |
| Reclassification to profit or loss | | - | - | - | ( 221,000,000 ) | - | ( 221,000,000 ) | - | ( 221,000,000 ) |
| Remeasurements on retirement benefit obligation | 2, 20 | - | - | - | ( 3,534,810 ) | - | ( 3,534,810 ) | ( 165,158 ) | ( 3,699,968 ) |
| Tax income on remeasurement | 2, 21 | - | - | - | 929,818 | - | 929,818 | - | 929,818 |
| Reduction in non-controlling interest | | - | - | - | - | - | - | ( 242,110,368 ) | ( 242,110,368 ) |
| Balance at December 31, 2012 | 23 | P 13,603,455,238 | P 4,247,887,996 | ( P 102,106,658 ) | P 1,030,385,774 | P 2,887,326,539 | P 21,666,948,889 | P 612,615,528 | P 22,279,564,417 |
| Balance at January 1, 2011 | 23 | | | | | | | | |
| As previously reported | | P 10,908,215,404 | P 4,281,564,705 | ( P 116,233,808 ) | P 826,334,027 | P 2,474,931,832 | P 18,374,812,160 | P 1,155,674,589 | P 19,530,486,749 |
| Prior period adjustment, net of tax | 2 | - | - | - | 1,286,773 | ( 1,833,057 ) | ( 546,284 ) | 5,169 | ( 541,115 ) |
| As restated | | 10,908,215,404 | 4,281,564,705 | ( 116,233,808 ) | 827,620,800 | 2,473,098,775 | 18,374,265,876 | 1,155,679,758 | 19,529,945,634 |
| Total comprehensive loss for the year: | | | | | | | | | |
| Net profit for the year | | - | - | - | - | 179,624,379 | 179,624,379 | 6,739,304 | 186,363,683 |
| Available-for-sale financial assets: | | | | | | | | | |
| Fair value losses on available-for-sale financial assets | | - | - | - | ( 346,355,500 ) | - | ( 346,355,500 ) | ( 45,359,540 ) | ( 391,715,040 ) |
| Reclassification to profit or loss | | - | - | - | ( 6,027,460 ) | - | ( 6,027,460 ) | ( 5,563,809 ) | ( 11,591,269 ) |
| Remeasurements on retirement benefit obligation | 2, 20 | - | - | - | ( 32,009,977 ) | - | ( 32,009,977 ) | ( 145,432 ) | ( 32,155,409 ) |
| Tax income on remeasurement | 2, 21 | - | - | - | 9,487,970 | - | 9,487,970 | - | 9,487,970 |
| Reduction in noncontrolling interest representing the shares held by a deconsolidated subsidiary | | - | - | - | - | - | - - | ( 257,877,828 ) | ( 257,877,828 ) |
| Balance at December 31, 2011 | 23 | P 10,908,215,404 | P 4,281,564,705 | ( P 116,233,808 ) | P 452,715,833 | P 2,652,723,154 | P 18,178,985,288 | P 853,472,453 | P 19,032,457,741 |

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

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philipine Pesos)***

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | **P 470,608,136** | P 310,809,022 | P 221,122,384 |
| Adjustments for: | | | | |
| Finance income | 19 | **( 449,788,792 )** | ( 490,908,542 ) | ( 374,332,255 ) |
| Finance costs | 19 | **126,572,738** | 96,630,630 | 58,317,356 |
| Dividend income | 19 | **( 42,788,000 )** | ( 40,536,000 ) | ( 44,395,338 ) |
| Depreciation and amortization | 12, 13 | **37,015,034** | 38,394,105 | 32,696,704 |
| Loss from sale of investment in associate | 10 | **35,422,273** | - | - |
| Equity share in net earnings of associates | 10 | **( 34,635,124 )** | ( 83,770,918 ) | ( 16,509,892 ) |
| Gain on sale of property and equipment | 13 | **( 487,890 )** | - | - |
| Impairment loss | 6 | **79,820** | 18,300 | 216,547 |
| Loss from dilution of investment in subsidiary | 10 | **-** | 37,501,256 | 57,824,732 |
| Gain on disposal of AFS financial assets | | **-** | - | ( 4,401,401 ) |
| Gain on disposal of FVTPL financial assets | | **-** | - | ( 3,337,364 ) |
| Fair value loss on FVTPL financial assets | | **-** | - | 616,308 |
| Operating profit (loss) before working capital changes | | **141,998,195** | ( 131,862,147 ) | ( 72,182,219 ) |
| Increase in trade and other receivables | | **( 593,261,118 )** | ( 548,433,029 ) | ( 77,052,055 ) |
| Increase in advances to related parties | | **( 133,230,631 )** | ( 654,297,479 ) | ( 1,419,236,079 ) |
| Increase in residential and condominium units for sale | | **( 1,456,829,490 )** | ( 1,854,871,188 ) | ( 1,518,609,497 ) |
| Increase in property development costs | | **( 243,026,014 )** | ( 235,827,882 ) | ( 239,142,763 ) |
| Increase in prepayments and other current assets | | **( 93,961,622 )** | ( 172,118,201 ) | ( 129,091,319 ) |
| Decrease in advances to landowners and joint ventures | | **35,509,548** | 117,631,400 | 424,047,714 |
| Increase in land held for future development | | **( 425,547,777 )** | ( 551,246,238 ) | ( 156,817,146 ) |
| Decrease in other non-current assets | | **287,613** | 16,151,725 | 152,627,038 |
| Increase (decrease) in trade and other payables | | **( 510,367,292 )** | 630,744,307 | ( 330,753,633 ) |
| Increase (decrease) in deferred gross profit on real estate sales | | **( 140,357,205 )** | 63,663,460 | ( 109,998,571 ) |
| Increase (decrease) in customers' deposits | | **217,826,347** | 393,712,546 | ( 270,542,910 ) |
| Increase (decrease) in reserve for property development | | **( 134,045,868 )** | 227,469,858 | 85,361,659 |
| Increase in other current liabilities | | **108,429,012** | 35,141,875 | 1,445,354,150 |
| Increase in retirement benefit obligation | | **32,328,471** | 14,820,055 | 10,910,444 |
| Cash used in operations | | **( 3,194,247,831 )** | ( 2,649,320,938 ) | ( 2,205,125,187 ) |
| Interest received | | **301,396,245** | 291,250,824 | 191,398,663 |
| Cash paid for income taxes | | **( 77,894,360 )** | ( 52,039,412 ) | ( 71,010,179 ) |
| Net Cash Used in Operating Activities | | **( 2,970,745,946 )** | ( 2,410,109,526 ) | ( 2,084,736,703 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from sale of investment in shares of stock | 10 | **471,236,862** | - | - |
| Dividends received | 19 | **42,788,000** | 40,536,000 | 44,395,338 |
| Interest received | 19 | **17,228,413** | 24,447,560 | 19,856,160 |
| Acquisitions of property and equipment | 13 | **( 11,815,910 )** | ( 16,125,846 ) | ( 25,849,730 ) |
| Proceeds from sale of property and equipment | 13 | **2,847,666** | - | - |
| Proceeds from disposal of AFS financial assets | | **-** | - | 379,297,342 |
| Acquisition of AFS financial assets | | **-** | - | ( 365,726,942 ) |
| Acquisition of financial assets at FVTPL | | **-** | - | ( 88,355,740 ) |
| Proceeds from disposal of financial assets at FVTPL | | **-** | - | 88,168,716 |
| Decrease in AFS financial assets | | **-** | - | 62,514,618 |
| Net Cash From Investing Activities | | **522,285,031** | 48,857,714 | 114,299,762 |
| *Balance Carried Forward* | | **( P 2,448,460,915 )** | ( P 2,361,251,812 ) | ( P 1,970,436,941 ) |

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| *Balance Brought Forward* | | **( P 2,448,460,915 )** | ( P 2,361,251,812 ) | ( P 1,970,436,941 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payments of advances from related parties | 22 | **( 1,286,978,539 )** | ( 80,417,177 ) | ( 73,792,054 ) |
| Proceeds from issuance of shares of stock | 23 | **1,260,000,000** | 2,695,239,834 | - |
| Payments of interest-bearing loans and borrowings | 14 | **( 170,152,311 )** | ( 249,364,217 ) | ( 349,967,275 ) |
| Proceeds from advances from related parties | 22 | **142,239,176** | 1,979,020,494 | 1,979,400,775 |
| Interest paid | | **( 25,399,062 )** | ( 43,776,313 ) | ( 76,122,701 ) |
| Direct costs in issuance of shares of stock | 23 | **-** | ( 33,676,709 ) | - |
| Net Cash From (Used in) Financing Activities | | **( 80,290,736 )** | 4,267,025,912 | 1,479,518,745 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **( 2,528,751,651 )** | 1,905,774,100 | ( 490,918,196 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **3,033,222,982** | 827,666,321 | 1,491,611,105 |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF DECONSOLIDATED SUBSIDIARIES** | 10 | **-** | ( 195,406,748 ) | ( 132,535,045 ) |
| **PREACQUISITION CHANGES IN CASH AND CASH EQUIVALENTS OF DECONSOLIDATED SUBSIDIARY** | 10 | **-** | 495,189,309 | ( 40,491,543 ) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **P 504,471,331** | P 3,033,222,982 | P 827,666,321 |

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

In the normal course of business, the Group enters into non-cash transactions which include the following:

- Capitalization of interest expense as part of Residential and condominium units for sales account (see Note 7) and
- Settlements of Advances to Landowners through receipt of certain parcels of land and reclassification to real estate assets upon full payment (see Note 8).

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

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

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

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

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

| Subsidiaries/ Associates | Explanatory Notes | Percentage of Ownership 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Subsidiaries: | | | | |
| Eastwood Property Holdings, Inc. (EPHI) | (a) | **100%** | 100% | 100% |
| Valle Verde Properties, Inc. (VVPI) | (b) | **100%** | 100% | 100% |
| Sherman Oak Holdings, Inc. (SOHI) | (c) | **100%** | 100% | 100% |
| Empire East Communities, Inc. (EECI) | (d) | **100%** | 100% | 100% |
| Laguna BelAir School, Inc. (LBASI) | (e) | **73%** | 73% | 73% |
| Sonoma Premier Land, Inc. (SPLI) | (f) | **60%** | 60% | 60% |
| Gilmore Property Marketing Associate, Inc. (GPMAI) | (g) | **-** | - | 52% |
| Associates: | | | | |
| GPMAI | (g) | 47% | 47% | - |
| SPI | (h) | **-** | 33% | 33% |

Explanatory Notes:

(a) Subsidiary incorporated in 1996 and serves as the marketing arm of the Company for the latter's projects, as well as those of other related parties.

(b) Subsidiary incorporated in 2006; additional shares were acquired in November 2008 through assignment of shares from a third party.

(c) Subsidiary incorporated in 2007; shares acquired through assignment of shares from Yorkshire Holdings Inc., a related party, in January 2008.

(d) Subsidiary incorporated in 2008 to primarily engage in the purchase, development, sale and lease of real properties but is currently engaged in the marketing of real estate properties.

(e) Subsidiary incorporated in 1996 to primarily engage in operating a school for primary and secondary education.

(f) Subsidiary incorporated in 2007 as a holding entity to primarily engage in the development and marketing of all kinds of real estate. Additional shares were acquired from First Centro, Inc. in March and June 2008.

(g) Entity incorporated in 1996. In 2012, the entity was deconsolidated and treated as an associate of the Company.

(h) Entity incorporated in 1997. In 2011, the entity was deconsolidated and treated as an associate of the Company. In 2013, the Company's remaining ownership interest was sold to Megaworld Corporation (Megaworld or the parent company).

The place of incorporation, which is similar with the place of operation of the Company's subsidiaries and affiliates, are located at 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City except EPHI, LBASI and SPI. The place of incorporation as well as the principal place of business of EPHI, LBASI and SPI are summarized below.

*(a)* EPHI – 28th Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City
*(b)* LBASI – Brgy. Don Jose, Sta. Rosa, Laguna
*(c)* SPI – Ground Floor, One World Square Bldg., No. 2 Upper Mc Kinley Road, Town Center, Fort Bonifacio Taguig City

Prior to March 25, 2011, the Company held 80% ownership interest in SPI and, thus, was a consolidated subsidiary in 2010. On March 25, 2011, the percentage ownership of the Company over SPI was reduced to 33% due to the subscription by Megaworld to SPI's increase in authorized capital stock. Accordingly, SPI was treated as an associate in 2012 and 2011. On June 7, 2013, the Company sold its 33% ownership interest in SPI to Megaworld. A total of 315,000,008 shares were sold for a total consideration of P471.2 million (see Note 10.1). As a result of the sale, SPI ceased to be an associate of the Company.

On December 26, 2012, GPMAI issued additional 5,000,000 shares of stock at P1 par value which were purchased by a third party. As a result, the percentage of ownership of the Company over GPMAI was reduced from 52% to 47%. In addition, the Company is no longer part of the Board of Directors (BOD) of GPMAI, thereby losing its control over the financial and operating policies of GPMAI. GPMAI is now an associate.

In prior years, the Company increased its ownership interest in VVPI and LBASI. This resulted to the recognition of goodwill which amounted to P78.3 million as of December 31, 2013 and 2012, and shown as part of Other non-current assets account in the consolidated statements of financial position.

Starting June 2011, the Company became a subsidiary of Megaworld. Megaworld is engaged in the development of large scale mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. The parent company is presently engaged in property-related activities, such as, project design, construction and property management. Alliance Global Group, Inc. (AGI) is the Company's ultimate parent company. AGI is a holding company with diversified investments in food and beverage, real estate, tourism-entertainment and gaming and quick service restaurant businesses. The shares of common stock of both Megaworld and AGI are listed at the PSE.

The registered office of the Company is located at the 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City. Megaworld's registered office is on the 28th Floor of the same building. On the other hand, AGI's registered office is located at the 7th Floor 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriquez Jr. Avenue, Bagumbayan, Quezon City. These entities' registered offices are also their respective principal places of business.

The consolidated financial statements of Empire East Land Holdings, Inc. and Subsidiaries (the Group) for the year ended December 31, 2013 (including the comparative financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012) were authorized for issue by the Company's BOD on March 7, 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 and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

### *2.1 Basis of Preparation of Consolidated Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (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 expenses in a single statement of comprehensive income.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. 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 Group presented a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Certain accounts in the 2012 and 2011 consolidated financial statements were reclassified to conform with the 2013 consolidated financial statement presentation and classification.

*(c) Functional and Presentation Currency*

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

Items included in the 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 are Relevant to the Company*

In 2013, the Group adopted for the first time the following new PFRS, revisions, amendments and annual improvements thereto 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 |
| Consolidation Standards | | |
| 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 PFRS 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 new, revised and 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 PFRS: (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 financial statements for December 31, 2012 and the corresponding figures as of 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 | As Restated |
| *Changes in liabilities:* | | | |
| Retirement benefit obligation | P 114,965,381 | P 35,337,019 | P 150,302,400 |
| Deferred tax liabilities - net | 1,124,530,786 | ( 10,272,577) | 1,114,258,209 |
| Net increase in liabilities | | P 25,064,442 | |
| *Changes in components of equity:* | | | |
| Revaluation reserves, net of tax | P 1,016,726,000 | (P 23,840,226) | P 992,885,774 |
| Retained earnings | 2,888,249,604 | ( 923,065) | 2,887,326,539 |
| Non-controlling interest | 612,916,679 | ( 301,151) | 612,615,528 |
| Net decrease in equity | | (P 25,064,442) | |

| | January 1, 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
| *Changes in liabilities:* | | | |
| Retirement benefit obligation | P 91,390,515 | P 32,592,411 | P 123,982,926 |
| Deferred tax liabilities - net | 1,094,339,686 | ( 9,624,708) | 1,084,714,978 |
| Net increase in liabilities | | P 22,967,703 | |
| *Changes in components of equity:* | | | |
| Revaluation reserves, net of tax | P 473,951,067 | (P 21,235,234) | P 452,715,833 |
| Retained earnings | 2,654,315,360 | ( 1,592,206) | 2,652,723,154 |
| Non-controlling interest | 853,612,716 | ( 140,263) | 853,472,453 |
| Net decrease in equity | | (P 22,967,703) | |

The effects of the restatement in the 2012 and 2011 consolidated statements of comprehensive income are presented below.

| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
|---|---|---|---|
| **2012** | | | |
| *Changes in profit or loss:* | | | |
| Salaries and employee benefits | P 199,779,027 | (P 8,754,811) | P 191,024,216 |
| Finance costs | 88,831,180 | 7,799,450 | 96,630,630 |
| Tax expense | 74,505,086 | 281,950 | 74,787,036 |
| | | (P 673,411) | |
| *Change in other comprehensive income:* | | | |
| Remeasurements on retirement benefit obligation – net of tax | P - | (P 2,770,150) | (P 2,770,150) |
| *Changes in total comprehensive income attributable to:* | | | |
| Company's shareholders | P 735,826,244 | (P 1,935,851) | P 733,890,393 |
| Non-controlling interest | 1,414,331 | ( 160,888) | 1,253,443 |
| | | (P 2,096,739) | |

| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
|---|---|---|---|
| **2011** | | | |
| *Changes in profit or loss:* | | | |
| Salaries and employee benefits | P 161,749,075 | (P 7,060,478) | P 154,688,597 |
| Finance costs | 51,600,951 | 6,716,405 | 58,317,356 |
| Tax expense | 34,655,479 | 103,222 | 34,758,701 |
| | | (P 240,851) | |
| *Change in other comprehensive income:* | | | |
| Remeasurements of retirement benefit obligation – net of tax | P - | (P 22,667,439) | (P 22,667,439) |
| *Changes in total comprehensive loss attributable to:* | | | |
| Company's shareholders | (P 172,999,432) | (P 22,281,156) | (P 195,280,588) |
| Non-controlling interest | ( 44,184,045) | ( 145,432) | ( 44,329,477) |
| | | (P 22,426,588) | |

The reclassifications of certain line items in the statements of financial position as of December 31, 2012 and January 1, 2012 have the following effects on the 2012 and 2011 consolidated statements of cash flows under operating activities:

| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
|---|---|---|---|
| **2012** | | | |
| Profit before tax | P 309,853,661 | P 955,361 | P 310,809,022 |
| Finance costs | 88,831,180 | 7,799,450 | 96,630,630 |
| Increase in retirement benefit obligation | 23,574,866 | ( 8,754,811) | 14,820,055 |
| | | P - | |
| **2011** | | | |
| Profit before tax | P 220,778,311 | P 344,073 | P 221,122,384 |
| Finance costs | 51,600,951 | 6,716,405 | 58,317,356 |
| Increase in retirement benefit obligation | 17,970,922 | ( 7,060,478) | 10,910,444 |
| | | P - | |

The adoption of PAS 19 (Revised) did not have a material impact on the Company's basic and diluted earnings per share (see Note 24).

(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 details and outstanding balances of financial assets and financial liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements are disclosed in Note 27.2.

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

This package of consolidation, joint arrangements, associates and disclosure 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 determines 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 controls when this 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 while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method.

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 PAS 27 (Revised) with respect to principal place of business and incorporation of the significant subsidiaries and associates (see Note 1).

(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. This 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 additional disclosures presented in Notes 12 and 28, 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 Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Group:

(a) 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 information in 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 years' 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.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.

(c) 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 has been recognizing the effect of distributions to holders of equity investments and transaction costs of an equity transaction in accordance with PAS 12.

*(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 financial statements:

| | | |
|---|---|---|
| PAS 34 (Amendment) | : | Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities |
| PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Government Loans, and Repeated Application of PFRS 1 and Borrowing Cost |
| 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 interpretations 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 financial statements:

(i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from 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 provided characteristics of a gross settlement system 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 its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.

(iv) PFRS 9, *Financial Instruments: Classification and Measurement*. 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 in 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 International Financial Reporting Standard (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 9 and 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. 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.

(v) Philippine 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 Securities and Exchange Commission 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.

(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 amendments 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)*

*(a)* PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

*(b)* PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that 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.

*(c)* PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

*(d)* 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)*

*(a)* PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

*(b)* 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 definitions of financial assets or financial liabilities as defined in PAS 32.

*(c)* 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 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.

### *2.3 Basis of Consolidation and Interests in Joint Ventures*

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

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

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

*(a)* *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when it exercises power over the entity, 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. The Company reassesess whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company, 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 Company recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

*(b) Investments in Associates*

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

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

All subsequent changes to the ownership interest in the equity of the 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 Earnings of Associates in the Group's consolidated statement of comprehensive income.

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

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

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

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

*(c)* *Transactions with Non-controlling Interests*

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

When the Company 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 Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

*(d)* *Interests in Joint Ventures*

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

### *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 available-for-sale (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 transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs are charged as expense and included in the profit or loss.

Currently, the Group's financial assets are categorized as financial assets at FVTPL, loans and receivables and AFS financial assets. A more detailed description of the financial assets is as follows:

*(a) Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term. In 2011, financial assets at FVTPL amounting to P5.8 million (nil in 2012 and 2013) is presented as part of Prepayments and Other Current Assets in the consolidated statement of financial position.

*(b) 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 end of the reporting period which are classified as non-current assets.

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group 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 cash flows discounted at the effective interest rate (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.

*(c)* *AFS Financial Assets*

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

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity. 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 loss is 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 was recognized.

The fair value of AFS financial assets is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS financial assets are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

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

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in consolidated profit or loss when received, regardless of how the related carrying amount of the 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 Prepayments and Other Assets*

Prepayments and other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the 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 other non-current assets.

### *2.6 Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

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

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

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

Fully depreciated 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.

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

The residual values 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 and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated profit or loss in the year the item is derecognized.

### *2.7 Investment Property*

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

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

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

Fully depreciated 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.

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

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 consolidated profit or loss in the year the item is derecognized.

### *2.8 Financial Liabilities*

Financial liabilities which include Interest-bearing Loans and Borrowings, Trade and Other Payables (except tax-related liabilities), Advances from Related Parties and Other Current Liabilities (excluding deferred income), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in the consolidated profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

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

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

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

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the 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 consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### *2.9 Business Combinations*

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

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

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

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

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

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

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

### *2.10 Offsetting of Financial Instruments*

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

### *2.11 Provisions and Contingencies*

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

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

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

### *2.12 Real Estate Transactions and Revenue and Expense Recognition*

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title to the property to the Group, are charged to the Land Held for Future Development account. These costs are reclassified to the Property Development Costs account as soon as the Group starts the development of the property. Related property development costs are then accumulated in this account. Once revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related costs are reclassified to Residential and Condominium Units for Sale. Interest on certain loans incurred during the development of the real estate properties are also capitalized as part of the Property Development Costs or Residential and Condominium Units for Sale account (see Note 2.19).

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

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

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

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

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

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

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

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

*(b)* *Rendering of services* – Revenue is recognized upon substantial rendition of the services required.

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

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

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

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

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

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

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known.

### *2.13 Commissions*

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

### *2.14 Leases*

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Leases which the Group does not substantially transfer to the lessee all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease receipts are recognized as income in the consolidated profit or loss on a straight-line basis over the lease term. Indirect costs incurred by the Group in negotiating and arranging for an operating lease is added to the carrying amount of the leased asset and recognized as expense over the lease term (see Note 2.12).

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

### *2.15 Segment Reporting*

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

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

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

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, is 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;
- research costs, if any, relating to new business activities; and
- revenue and costs 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.

### *2.16 Foreign Currency Transactions and Translation*

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

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

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

The Group's interest in joint ventures, investment property, property and equipment, investment in associates, goodwill and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at 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 amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company'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 provides post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

*(a) 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 pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated at least every two years 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 & Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

*(b) Defined Contribution Plans*

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

*(c) Compensated Absences*

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

### *2.19 Borrowing Costs*

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

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

### *2.20 Income Taxes*

Tax expense recognized in consolidated 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. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of 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 deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in 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 consolidated other comprehensive income or directly in equity, respectively.

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

### *2.21 Related Party Transactions and Relationships*

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) the Group's retirement fund; and, (d) 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 Earnings Per Share*

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

Diluted earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Group does not have dilutive potential shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

### *2.23 Equity*

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

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

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

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

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

### *2.24 Events After the End of the Reporting Period*

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

### *3.1 Critical Judgments in Applying Accounting Policies*

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

*(a) Impairment of AFS Financial Assets*

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

The Group's AFS financial assets are not impaired as of December 31, 2013 and 2012. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

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

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely 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 Group's main line of business while land held 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 use in the Group's main line of business or 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 use in the Group's main line of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

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

*(c) Distinction between Operating and Finance Leases*

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

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

*(d) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant contingencies are presented in Note 25.

### *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 financial year:

*(a) Determining Net Realizable Value of Residential and Condominium Units for Sale, Property Development Costs and Land Held for Future Development*

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

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

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

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

The carrying amounts of investment property and property and equipment are analyzed in Notes 12 and 13, respectively. Based on management's assessment as at December 31, 2013 and 2012, there is no change in estimated useful lives of property and equipment and investment property during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(c) Impairment of Trade and Other Receivables and Advances to Landowners and Joint Ventures*

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 counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6. No impairment losses were recognized on the Group's Advances to Landowners and Joint Ventures (see Note 8).

(d) *Fair Value Measurements of Financial Instruments*

The Group carries certain financial assets at fair value, which are classified as Level 1 fair values as these investments are traded in the stock market. As such, no significant accounting estimates and judgment was made on its FVTPL and AFS financial assets (see Note 11). Meanwhile, certain AFS financial assets amounting to P2.7 million as of December 31, 2012 and 2011 are measured at cost since there are no available market values on these instruments.

(e) *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.

The carrying values of the Group's deferred tax assets as of December 31, 2013 and 2012 are disclosed in Note 21.

(f) *Impairment of Non-financial Assets*

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 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.

Based on management evaluation, no impairment losses were recognized on the Group's non-financial assets.

(g) *Valuation of Post-Employment Defined Benefit*

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation are presented in Note 20.2.

*(h) Revenue Recognition Based on 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 to date as a proportion of the total budgeted cost of the project. Should the proportion of the percentage of completed projects differ by 10% from management's estimates, the amount of revenue recognized in 2013 and 2012 would have increased by P28.9 million and P33.8 million, respectively, if percentages of completion were increased by 10%. Consequently, revenue would have decreased by P56.1 million and P47.45 million in 2013 and 2012, respectively, if the percentages of completion were decreased by 10%.

*(i) Basis for Revenue Recognition Benchmark*

As discussed in Note 2.12, the Group recognizes its revenue in full when a certain percentage of the net contract price is received. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history of customers and number of back out sales in prior years. A buyer's interest in the property is considered to have vested when a defined percentage of the net contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

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

Investment Property is measured using the cost model. The fair value disclosed in Note 12 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 investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting periods.

The principal assumptions underlying management's estimation of fair value are those related to: 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.

## 4. SEGMENT REPORTING

### *4.1 Business Segments*

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

### *4.2 Segment Assets and Liabilities*

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

### *4.3 Intersegment Transactions*

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

### *4.4 Analysis of Segment Information*

The following tables present the revenue and profit information regarding industry segments for the years ended December 31, 2013, 2012 and 2011 and certain assets and liabilities information regarding industry segments as of December 31, 2013 and 2012.

| | High Rise Projects | | | Horizontal Projects | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | **2013** | 2012 | 2011 | **2013** | 2012 | 2011 |
| **REVENUES** | | | | | | | | | |
| Real estate sales | **P 1,393,785,610** | P 1,134,391,661 | P 785,205,409 | **P 311,834,451** | P 247,021,950 | P 198,325,741 | **P 1,705,620,061** | P 1,381,413,611 | P 983,531,150 |
| Realized gross profit on prior years' sale | **111,914,555** | 54,887,331 | 69,382,884 | **81,736,354** | 25,773,660 | 37,312,770 | **193,650,909** | 80,660,991 | 106,695,654 |
| Finance income | **335,211,278** | 323,695,054 | 213,588,625 | **( 16,461,227)** | 29,823,710 | 39,839,934 | **318,750,051** | 353,518,764 | 253,428,559 |
| Rental income | **99,522,551** | 36,497,835 | 33,187,251 | **18,805,389** | 4,743,136 | 11,085,103 | **118,327,940** | 41,240,971 | 44,272,354 |
| Other income | **139,366,064** | 163,610,459 | 83,374,549 | **48,657,616** | 29,548,470 | 69,143,939 | **188,023,680** | 193,158,929 | 152,518,488 |
| Total revenues | **2,079,800,058** | 1,713,082,340 | 1,184,738,718 | **444,572,583** | 336,910,926 | 355,707,487 | **2,524,372,641** | 2,049,993,266 | 1,540,446,205 |
| **COSTS AND OTHER OPERATING EXPENSES** | | | | | | | | | |
| Cost of real estate sales | **988,400,529** | 739,162,660 | 592,804,308 | **163,976,740** | 167,101,588 | 153,339,964 | **1,152,377,269** | 906,264,248 | 746,144,272 |
| Deferred gross profit on current year's sales | **37,359,174** | 94,773,101 | 82,822,261 | **15,934,530** | 49,551,349 | 18,121,858 | **53,293,704** | 144,324,450 | 100,944,119 |
| Salaries and employee benefits | **-** | 5,486 | 10,515 | **471,320** | 596,865 | 729,833 | **471,320** | 602,351 | 740,348 |
| Commissions | **103,382,383** | 96,922,750 | 79,013,904 | **42,622,296** | 24,679,728 | 15,806,726 | **146,004,679** | 121,602,478 | 94,820,630 |
| Rentals | **102,227,942** | 65,760,076 | 20,824,974 | **16,087,532** | 32,881,024 | 7,459,293 | **118,315,474** | 98,641,100 | 28,284,267 |
| Taxes and Licenses | **29,025,731** | 15,929,200 | 17,723,265 | **21,537,594** | 17,001,389 | 2,515,323 | **50,563,325** | 32,930,589 | 20,238,588 |
| Advertising and promotion | **42,673,406** | 103,827,731 | 78,144,745 | **31,426,143** | 29,965,682 | 10,511,547 | **74,099,549** | 133,793,413 | 88,656,292 |
| Association dues | **18,927,486** | 22,608,540 | 27,130,979 | **4,526,170** | 7,441,309 | - | **23,453,656** | 30,049,849 | 27,130,979 |
| Others | **21,167,818** | 17,119,555 | 11,758,059 | **13,440,746** | 12,232,515 | 8,201,986 | **34,608,564** | 29,352,070 | 19,960,045 |
| Cost and other operating expenses excluding depreciation and amortization | **1,343,164,469** | 1,156,109,099 | 910,233,010 | **310,023,071** | 341,451,449 | 216,686,530 | **1,653,187,540** | 1,497,560,548 | 1,126,919,540 |
| Depreciation and amortization | **3,395,290** | 3,674,999 | 3,702,291 | **14,061,920** | 14,209,915 | 14,215,688 | **17,457,210** | 17,884,914 | 17,917,979 |
| | **1,346,559,759** | 1,159,784,098 | 913,935,301 | **324,084,991** | 355,661,364 | 230,902,218 | **1,670,644,750** | 1,515,445,462 | 1,144,837,519 |
| **SEGMENT OPERATING PROFIT (LOSS)** | **P 733,240,299** | P 553,298,242 | P 270,803,417 | **P 120,487,592** | (P 18,750,438) | P 124,805,269 | **P 853,727,891** | P 534,547,804 | P 395,608,686 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | | | | |
| Segment assets | **P14,074,551,368** | P12,115,201,349 | | **P 4,990,407,147** | P 4,884,277,328 | | **P19,064,958,515** | P16,999,478,677 | |
| Segment liabilities | **798,100,219** | 808,553,884 | | **325,270,520** | 589,219,928 | | **1,123,370,739** | 1,397,773,812 | |

Sales to any of the Company's major customers did not exceed 10% of the Company's revenues in all of the years presented.

### *4.5 Reconciliations*

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Revenues** | | | |
| Total segment revenues | **P 2,524,372,641** | P 2,049,993,266 | P 1,540,446,205 |
| Unallocated revenues: | | | |
| Rental income from investment property | **3,035,931** | 3,784,977 | 3,318,465 |
| Finance income | **173,826,741** | 177,925,778 | 172,421,491 |
| Commissions | **147,636,430** | 149,623,356 | 149,817,650 |
| Equity share in net earnings of associate | **34,635,124** | 83,770,918 | 16,509,892 |
| Other income | **67,609,445** | 57,655,322 | 70,862,995 |
| | **426,743,671** | 472,760,351 | 412,930,493 |
| Revenues as reported in profit or loss | **P 2,951,116,312** | P 2,522,753,617 | P 1,953,376,698 |
| **Profit or loss** | | | |
| Segment operating profit | **P 853,727,891** | P 534,547,804 | P 395,608,686 |
| Other unallocated income | **426,743,671** | 472,760,351 | 412,930,493 |
| Other unallocated expense | **( 809,863,426)** | ( 696,499,133) | ( 587,416,795) |
| Profit before tax as reported in profit or loss | **P 470,608,136** | P 310,809,022 | P 221,122,384 |
| **Assets** | | | |
| Segment assets | **P 19,064,958,515** | P16,999,478,677 | |
| Unallocated assets: | | | |
| Cash and cash equivalents | **504,471,331** | 3,033,222,982 | |
| Trade and other receivables | **2,063,602,861** | 1,787,517,081 | |
| Advances to related parties | **2,053,791,774** | 1,687,392,195 | |
| Prepayments and other current assets | **760,206,175** | 666,244,553 | |
| Advances to landowners and joint ventures | **787,075,245** | 822,584,793 | |
| Investment in associates | **293,372,235** | 970,146,246 | |
| Available for sale financial assets | **2,905,080,000** | 1,887,176,000 | |
| Property and equipment – net | **160,370,094** | 171,065,623 | |
| Land held for future development | **4,088,300,118** | 3,662,752,341 | |
| Investment property – net | **185,552,516** | 202,357,339 | |
| Other non-current assets | **84,458,536** | 84,746,150 | |
| | **13,886,280,885** | 14,975,205,303 | |
| Total assets as reported in the consolidated statements of financial position | **P 32,951,239,400** | P31,974,683,980 | |

| | 2013 | 2012 |
|---|---|---|
| **Liabilities** | | |
| Segment liabilities | **P 1,123,370,739** | P 1,397,773,812 |
| Unallocated liabilities: | | |
| Interest-bearing loans and borrowings | **219,731,151** | 389,883,462 |
| Customers' deposits | **2,957,368,755** | 2,739,542,408 |
| Trade and other payables | **438,132,758** | 948,441,503 |
| Advances from related parties | **1,643,353,984** | 2,750,593,347 |
| Income tax payable | **7,267,113** | 7,053,140 |
| Other current liabilities | **305,700,294** | 197,271,282 |
| Deferred tax liabilities – net | **1,177,480,246** | 1,114,258,209 |
| Retirement benefit obligation | **288,880,437** | 150,302,400 |
| | **7,037,914,738** | 8,297,345,751 |
| Total liabilities as reported in the consolidated statements of financial position | **P 8,161,285,477** | P 9,695,119,563 |

## 5. CASH AND CASH EQUIVALENTS

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

| | 2013 | 2012 |
|---|---|---|
| Cash on hand and in banks | **P 410,026,705** | P 296,890,366 |
| Short-term placements | **94,444,626** | 2,736,332,616 |
| | **P 504,471,331** | P 3,033,222,982 |

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

Peso-denominated short-term placements are made for varying periods of up to 60 days in 2013, 91 days in 2012 and 60 days in 2011 and earn annual effective interest ranging from 0.25% to 3.00% in 2013, 0.50% to 4.25% in 2012 and 0.50% to 4.75% in 2011. Dollar-denominated short-term placements are made for varying periods of up to 118 days in 2013, 93 days in 2012 and 98 days in 2011 and earn annual effective interest ranging from 0.50% to 2.00% in 2013, 0.25% to 1.50% in 2012, and 0.88% to 2.50% in 2011 (see Note 19.1).

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

| | 2013 | 2012 |
|---|---|---|
| Current: | | |
| Trade receivables | **P 1,571,441,013** | P 1,524,376,795 |
| Advances to suppliers and contractors | **865,590,629** | 576,377,414 |
| Interest receivable | **378,930,113** | 419,696,416 |
| Rent receivable | **66,977,121** | - |
| Others | **97,186,469** | 70,656,804 |
| | **2,980,125,345** | 2,591,107,429 |
| Allowance for impairment | **( 559,030)** | ( 518,498) |
| | **2,979,566,315** | 2,590,588,931 |
| Non-current: | | |
| Trade receivables | **2,313,206,474** | 1,948,297,003 |
| Refundable security deposits | **44,665,660** | 177,844,987 |
| Others | **63,820,351** | 68,216,827 |
| | **2,421,692,485** | 2,194,358,817 |
| | **P5,401,258,800** | P4,784,947,748 |

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

A reconciliation of the allowance for impairment on current and non-current trade and other receivables at the beginning and end of 2013 and 2012 is shown below.

| | 2013 | 2012 |
|---|---|---|
| Balance at beginning of year | **P 518,498** | P 611,613 |
| Impairment losses during the year | **79,820** | 18,300 |
| Recovery of accounts previously provided with allowance | **( 39,288)** | ( 111,415) |
| Balance at end of year | **P 559,030** | P 518,498 |

Trade receivables of the Group are either interest-bearing or noninterest-bearing. The installment period of interest-bearing sales contracts ranges from 2 to 15 years. Interest-bearing receivables bear nominal interest rates, which are equal to the effective interest rates ranging from 14% to 19% in 2013 and 14% to 18% in 2012 and 2011. The related finance income earned on those sales contracts amounting to P267.5 million in 2013, P319.2 million in 2012 and P216.4 million in 2011 are reported as part of Finance Income in the consolidated statements of comprehensive income (see Note 19.1).

The installment period of noninterest-bearing sales contracts ranges from 3 to 5 years. The fair values of the noninterest-bearing trade receivables as of December 31, 2013 and 2012 were determined by calculating the present value of the cash flows anticipated to be received until the end of the installment term using 10% discount rate. Amortization of day one loss amounting to P51.3 million in 2013, P34.4 million in 2012 and P37.2 million in 2011 are presented as part of Finance Income in the consolidated statements of comprehensive income (see Note 19.1).

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

The Group partially finances its real estate projects and other business undertakings through discounting of its trade receivables on a with-recourse basis with certain local banks. The carrying amount of discounted trade receivables amounted to P220.0 million and P333.0 million as of December 31, 2013 and 2012, respectively, while the related liability is presented as part of Bank Loans under Interest-bearing Loans and Borrowings in the consolidated statements of financial position (see Note 14.1).

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

Refundable security deposits include various deposits to third parties for electrical and other utilities equipment needed in the development of housing projects, i.e., condominium communities and house and lot packages. Such deposits are only refundable upon completion of the projects or upon return of the equipment used. However, the exact date or period of completion of projects or return of equipment is indeterminable. Accordingly, refundable deposits are accounted for at cost.

In 2013 and 2012, the Group reclassified other receivables amounting to P63.8 million and P68.2 million, respectively, to non-current portion based on management evaluation that settlement will be made within two years.

## 7. REAL ESTATE PROPERTIES

### *7.1 Residential and Condominium Units for Sale*

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

Total capitalized borrowing cost during the year amounted to P25.4 million and P43.8 million in 2013 and 2012, respectively (see Note 14.3).

### *7.2 Property Development Costs*

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

### *7.3 Net Realizable Value*

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

## 8. ADVANCES TO LANDOWNERS AND JOINT VENTURES

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

The details of advances to landowners and joint ventures are as follows:

| | **2013** | 2012 |
|---|---|---|
| Advances to landowners: | | |
| Balance at beginning of year | **P 25,000,029** | P 118,184,386 |
| Additional advances granted | **-** | 159,686,257 |
| Reclassifications | **-** | ( 252,870,614) |
| Balance at end of year | **25,000,029** | 25,000,029 |
| Advances to joint ventures: | | |
| Balance at beginning of year | **797,584,764** | 822,031,807 |
| Additional advances granted | **3,185,932** | 2,760,340 |
| Collections | **( 38,695,480)** | ( 27,207,383) |
| Balance at end of year | **762,075,216** | 797,584,764 |
| | **P 787,075,245** | P 822,584,793 |

In 2012, certain down payments made on parcels of land, amounting to P130.0 million and P122.9 million, were reclassified to Land Held for Future Development and Property Development Costs account, respectively, upon full payment by the Group and transfer of title to the Group from the landowners. There was no such transaction in 2013.

The Group commits to develop the properties based on the terms agreed with joint venture partners. Total commitment for cash advances under the existing joint venture agreements amounted to P300.0 million in 2011 (nil in 2012 and 2013). This commitment has been fully complied with by the Group as of December 31, 2013 and 2012.

The net commitment for construction expenditures amounts to:

| | **2013** | 2012 |
|---|---|---|
| Total commitment for construction expenditures | **P 7,465,887,664** | P 7,465,887,664 |
| Total expenditures incurred | **( 3,067,637,235)** | ( 1,934,085,679) |
| Net commitment | **P 4,398,250,429** | P 5,531,801,985 |

The Group's interest in jointly controlled operations and projects ranges from 55% to 82% in 2013 and 2012, respectively. The Group's jointly controlled projects are as follows:

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

As of December 31, 2013 and 2012, the Group has no other material contingent liabilities with regard to these joint ventures.

## 9. LAND HELD FOR FUTURE DEVELOPMENT

This account includes cost of several parcels of land acquired by the Group and other costs incurred to effect the transfer of the title of the properties to the Group. Most of these properties are located in Metro Manila and Calabarzon areas and are intended for future development. Real estate taxes paid relating to these properties amounted to P9.4 million, P4.8 million and P1.0 million in 2013, 2012 and 2011, respectively, and is presented as part of Taxes and Licenses in the consolidated statements of comprehensive income. Management believes that the net realizable value of land held for future development is higher than its related carrying value as of the end of the reporting periods.

## 10. INVESTMENT IN ASSOCIATES

The components of the investments in associates as of December 31, 2013 and 2012, are as follows:

| | % Interest Held | 2013 | % Interest Held | 2012 |
|---|---|---|---|---|
| Investments in associates – at equity | | | | |
| Acquisition costs: | | | | |
| GPMAI | 47% | **P293,960,618** | 47% | P293,960,618 |
| SPI | - | **-** | 33% | 371,154,818 |
| | | **293,960,618** | | 665,115,436 |
| Accumulated equity in net earnings (losses): | | | | |
| Balance at beginning of year | | **100,280,810** | | 16,509,892 |
| Equity share in net earnings for the year | | **34,635,124** | | 83,770,918 |
| Equity in net earnings on investment in SPI sold during the year | | **( 135,504,317)** | | - |
| Balance at end of year | | **( 588,383)** | | 100,280,810 |
| Advances to SPI treated as investment | | **-** | | 204,750,000 |
| | | **P293,372,235** | | P 970,146,246 |

### *10.1 Sale of Investment in SPI*

On June 7, 2013, the Company sold its 33% ownership interest in SPI to Megaworld. A total of 315,000,008 shares were sold for a total consideration of P471.2 million. The carrying amount of investment in SPI at the time of sale is P506.7 million. Accordingly, loss on the sale of investment amounting to P35.4 million was recognized and presented as part of Other Expenses in the 2013 consolidated statement of comprehensive income (See Note 18).

### *10.2 Dilution of Ownership Interest in GPMAI and SPI*

On December 26, 2012, GPMAI issued additional 5,000,000 shares of stock at P1 par value which was purchased by a third party. As a result, the percentage of ownership of the Company over GPMAI was diluted from 52% to 47%, thereby losing control over the latter. The fair value from the remeasurement of the Company's investment in GPMAI amounting to P294.0 million was recognized as the deemed cost of the new investment in associate. The related balances of GPMAI's assets and liabilities as of December 26, 2012 were deconsolidated in 2012 and were no longer in the consolidated statement of financial position as of December 31, 2012. Accordingly, loss from dilution amounting to P37.5 million was recognized in the 2012 consolidated statement of comprehensive income.

On March 25, 2011, the percentage ownership of the Company over SPI was diluted and reduced from 80% to 33% due to Megaworld's subscription to SPI's unissued capital stock. As a result, SPI became a subsidiary of Megaworld holding approximately 59% ownership in SPI. The fair value of the reduced ownership interest of the Company in SPI amounting to P371.2 million was recognized as the deemed cost of the investment in associate. Accordingly, a loss from dilution amounting to P57.8 million was recognized in the 2011 consolidated statement of comprehensive income.

A portion of the Group's advances to SPI amounting to P204.8 million is presented as part of the Investment in Associates account as of December 31, 2012 since settlement of the advances is neither planned nor likely in the foreseeable future. These advances were reclassified and presented as part of Advances to Related Parties in the 2013 statement of financial position as the Group no longer have any ownership interest with SPI as of December 31, 2013 (see Note 22.1).

Equity share in net earnings of associates amounted to P34.6 million in 2013 and P83.8 million in 2012 and are presented in the consolidated statements of comprehensive income. No dividends were received from these investments in 2013 and 2012.

### *10.3 Summarized Financial Information*

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

| | Assets | Liabilities | Revenues | Net Profit (Loss) |
|---|---|---|---|---|
| 2013 – | | | | |
| GPMAI | **P 606,925,269** | **P 12,044,804** | **P 6,100,708** | **(P 10,390,561)** |
| 2012: | | | | |
| SPI | P 7,355,569,029 | P 5,925,688,531 | P 896,244,643 | P 242,487,133 |
| GPMAI | 617,315,052 | 12,044,026 | - | ( 93,998,746) |
| | P 7,972,884,081 | P 5,937,732,557 | P 896,244,643 | P 148,488,387 |

As of December 31, 2013 and 2012, the related book values of the Group holding in these associates amounting to P293.9 million and P758.6 million, respectively, are higher than or equal to the related carrying amount; hence, the Group deemed that no impairment loss is necessary.

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The movements of the carrying amounts of AFS financial assets are as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| Balance at beginning of year | | **P 1,887,176,000** | P 1,652,746,082 |
| Fair value gains – net | | **1,017,904,000** | 464,392,000 |
| Deconsolidation of balance related to GPMAI | 10 | **-** | ( 229,962,082) |
| Balance at end of year | | **P2,905,080,000** | P 1,887,176,000 |

AFS financial assets mainly consist of investments held by EPHI in equity securities of the Ultimate Parent Company listed in the PSE. The fair value of these securities has been determined directly by reference to published prices in an active market. The fair value of these investments, amounting to P2.9 billion, is categorized as Level 1 in the fair value hierarchy. On the other hand, the Group's Level 3 investments amounting to P2.7 million include equity instruments which are presented as part of Other Non-Current Assets account in the consolidated statements of financial position.

The net accumulated fair value gains or losses in AFS financial assets is shown as Revaluation Reserves in the equity section of the consolidated statements of financial position.

Dividends earned amounted to P42.8 million, P40.5 million and P44.4 million in 2013, 2012 and 2011 and are presented as Dividend income under Finance Income in the consolidated statements of comprehensive income (see Note 19.1).

## 12. INVESTMENT PROPERTY

The Group's investment property pertains to building and office/commercial units for lease and a parcel of land held for capital appreciation. Rental revenues recognized for the years ended December 31, 2013, 2012 and 2011 amounted to P121.4 million, P45.0 million and P47.6 million, respectively, and are presented as Rental Income in the consolidated statements of comprehensive income. Real estate taxes and depreciation substantially represent direct costs related to these properties. Real estate tax amounting to P1.1 million, P1.6 million and P1.0 million was recognized as a related expense in 2013, 2012 and 2011, respectively, and presented as part of Taxes and Licenses in the consolidated statements of comprehensive income.

The gross carrying amounts and accumulated depreciation of investment property as of the reporting period is shown below.

| | Note | **2013** | 2012 | 2011 |
|---|---|---|---|---|
| Cost | | **P 337,136,458** | P 351,596,080 | P 351,596,080 |
| Deconsolidation of balance Related to GPMAI | 10 | **-** | ( 14,459,622) | - |
| Accumulated depreciation | | **( 151,583,942)** | ( 134,779,119) | ( 117,974,296) |
| Net carrying amount | | **P 185,552,516** | P 202,357,339 | P 233,621,784 |

A reconciliation of the carrying amount of investment property at the beginning and end of 2013 and 2012 are as follows:

| | Note | **2013** | 2012 |
|---|---|---|---|
| Balance at January 1, net of accumulated depreciation | | **P 202,357,339** | P 233,621,784 |
| Deconsolidation of balance related to GPMAI | 10 | **-** | ( 14,459,622) |
| Depreciation charges for the year | | **( 16,804,823)** | ( 16,804,823) |
| Balance at December 31, net of accumulated depreciation | | **P 185,552,516** | P 202,357,339 |

The amount of depreciation expense is presented as part of the Depreciation and Amortization account in the consolidated statements of comprehensive income.

Other information relating to fair value measurements and disclosures of investment property are disclosed in Note 28.

## 13. PROPERTY AND EQUIPMENT

As of December 31, 2013 and 2012, this account includes land amounting to P81,095,000 which is used as LBASI's school site. The gross carrying amounts and accumulated depreciation and amortization of other items of property and equipment at the beginning and end of 2013 and 2012 are shown below.

| | Building and Other Improvements | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| December 31, 2013 | | | | | |
| Cost | P 73,617,523 | P 110,449,797 | P 51,677,754 | P 59,561,765 | P 295,306,839 |
| Accumulated depreciation and amortization | ( 25,130,765) | ( 98,267,819) | ( 42,325,796) | ( 50,307,365) | ( 216,031,745) |
| Net carrying amount | **P 48,486,758** | **P 12,181,978** | **P 9,351,958** | **P 9,254,400** | **P 79,275,094** |
| December 31, 2012 | | | | | |
| Cost | P 73,144,723 | P 104,133,832 | P 55,886,319 | P 57,990,193 | P 291,155,067 |
| Accumulated depreciation and amortization | ( 22,195,567) | ( 92,500,052) | ( 43,614,764) | ( 42,874,061) | ( 201,184,444) |
| Net carrying amount | P 50,949,156 | P 11,633,780 | P 12,271,555 | P 15,116,132 | P 89,970,623 |
| January 1, 2012 | | | | | |
| Cost | P 73,144,723 | P 97,038,848 | P 52,345,401 | P 52,500,247 | P 275,029,219 |
| Accumulated depreciation and amortization | ( 19,269,778) | ( 87,425,798) | ( 38,161,309) | ( 34,738,275) | ( 179,595,160) |
| Net carrying amount | P 53,874,945 | P 9,613,050 | P 14,184,092 | P 17,761,972 | P 95,434,059 |

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 is shown below.

| | Building and Other Improvements | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2013, net of accumulated depreciation and amortization | P 50,949,156 | P 11,633,780 | P 12,271,555 | P 15,116,132 | P 89,970,623 |
| Additions | 472,800 | 6,419,491 | 3,100,482 | 1,823,137 | 11,815,910 |
| Disposals | - | ( 67,434) | ( 2,108,346) | ( 125,448) | ( 2,301,228) |
| Depreciation and amortization charges for the year | ( 2,935,198) | ( 5,803,859) | ( 3,911,733) | ( 7,559,421) | ( 20,210,211) |
| Balance at December 31, 2013, net of accumulated depreciation and amortization | **P 48,486,758** | **P 12,181,978** | **P 9,351,958** | **P 9,254,400** | **P 79,275,094** |

| | Building and Other Improvements | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2012, net of accumulated depreciation and amortization | P 53,874,945 | P 9,613,050 | P 14,184,093 | P 17,761,972 | P 95,434,060 |
| Additions | - | 7,094,984 | 3,540,918 | 5,489,944 | 16,125,846 |
| Reclassification | - | 28,524 | - | ( 28,524) | - |
| Depreciation and amortization charges for the year | ( 2,925,789) | ( 5,102,778) | ( 5,453,456) | ( 8,107,260) | ( 21,589,283) |
| Balance at December 31, 2012, net of accumulated depreciation and amortization | P 50,949,156 | P 11,633,780 | P 12,271,555 | P 15,116,132 | P 89,970,623 |

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

The cost of fully depreciated assets still used in business amounted to P152.0 million and P136.9 million as of December 31, 2013 and 2012, respectively.

## 14. INTEREST-BEARING LOANS AND BORROWINGS

At December 31, 2013 and 2012, the Group's interest-bearing loans and borrowings are as follows:

| | Note | **2013** | 2012 |
|---|---|---|---|
| Current: | | | |
| Bank loans | | **P 71,200,342** | P 95,846,754 |
| Commercial/term loan | 22.3 | **-** | 57,142,857 |
| | | **71,200,342** | 152,989,611 |
| Non-current: | | | |
| Bank loans | | **148,530,809** | 236,893,851 |
| | | **P 219,731,151** | P 389,883,462 |

Certain properties presented as part of Residential and Condominium Units for Sale and Trade Receivables with total estimated carrying value of 654.7 million and P861.1 million, as of December 31, 2013 and 2012, respectively are used as collateral for the P219.7 million and P389.9 million loans and borrowings as of December 31, 2013 and 2012, respectively.

### *14.1 Bank Loans*

The bank loans represent secured loans from banks. The loans bear annual interest rates ranging from 7.8% to 10.5% in 2013 and 2012 and 7.9% to 10.5% in 2011. Bank loans also include proceeds received from certain trade receivables that were discounted on a with-recourse basis (see Note 6).

Finance costs that are directly attributable to construction of the Group's projects are capitalized as part of Residential and Condominium Units for Sale (see Note 14.3).

Certain bank loans require the Group to maintain a debt-to-equity ratio of not more than 1:1 and a current ratio of not less than 2:1. As of December 31, 2013 and 2012, the Group is in compliance with such financial covenant obligation.

### *14.2 Commercial/Term Loans*

Included in the 2012 balance of commercial/term loans is the P400.0 million loan obtained in 2006 from a government institution. This loan bears annual interest of 10.5% and is secured by certain real estate properties owned by a stockholder (see Note 22.3). The principal amount is payable in seven equal annual amortization beginning March 15, 2007. Interest payments are due and payable semi-annually, with the first interest payment due on September 15, 2006 and every six months thereafter. The loan was fully settled in 2013.

### *14.3 Interest*

Total interest on these interest-bearing loans and borrowings in 2013, 2012 and 2011 amounted to P25.4 million, P43.8 million and P76.1 million, respectively. Interest expense that are directly attributable to the construction of the Company's projects are capitalized as part of Residential and Condominium Units for Sale accounts in the consolidated statements of financial position. The Group's capitalization rate is 9.2%, 9.5% and 9.2% in 2013, 2012 and 2011, respectively (see Note 7.1). Unpaid interest as of December 31, 2013 and 2012 amounted to P0.7 million and P2.8 million, respectively, and is presented as Interest Payable under the Trade and Other Payables account in the statements of financial position (see Note 15).

## 15. TRADE AND OTHER PAYABLES

This account consists of:

| | Note | **2013** | 2012 |
|---|---|---|---|
| Trade payables | | **P 295,606,188** | P 831,093,216 |
| Accrued expenses | | **66,381,919** | 29,631,551 |
| Taxes payable | | **60,829,266** | 57,126,387 |
| Commissions | | **13,759,017** | 15,759,017 |
| Interest payable | 14.3 | **676,235** | 14,295,782 |
| Miscellaneous | | **880,133** | 535,550 |
| | | **P 438,132,758** | P 948,441,503 |

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

## 16. CUSTOMERS' DEPOSITS

Presented below are the details of this account.

| | 2013 | 2012 |
|---|---|---|
| Advances from customers | **P 2,752,160,241** | P 2,564,084,173 |
| Other deposits | **205,208,514** | 175,458,235 |
| | **P 2,957,368,755** | P 2,739,542,408 |

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

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

## 17. OTHER CURRENT LIABILITIES

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

| | 2013 | 2012 |
|---|---|---|
| Retention payable | **P 262,364,441** | P 148,622,977 |
| Refundable tenant rental deposits | **23,057,330** | 28,954,786 |
| Deferred income | **17,787,624** | 17,026,195 |
| Miscellaneous | **2,490,899** | 2,667,324 |
| | **P 305,700,294** | P 197,271,282 |

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

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

## 18. OTHER INCOME AND EXPENSES

### *18.1 Other Income*

The details of this account are shown below.

| | | **2013** | | 2012 | | 2011 |
|---|---|---|---|---|---|---|
| Forfeited collections and deposits | **P** | **188,025,808** | P | 193,158,929 | P | 152,535,626 |
| Tuition and miscellaneous fees | | **40,659,477** | | 39,950,878 | | 40,645,816 |
| Marketing fees | | **5,560,753** | | 4,424,538 | | 3,495,604 |
| Miscellaneous | | **21,387,087** | | 13,279,906 | | 26,704,437 |
| | **P** | **255,633,125** | P | 250,814,251 | P | 223,381,483 |

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

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

Miscellaneous income mostly includes collections of common area charges.

### *18.2 Other Expenses*

The breakdown of other operating expenses is shown below.

| | Notes | | **2013** | | 2012 | | 2011 |
|---|---|---|---|---|---|---|---|
| Rentals | 25.2 | **P** | **162,986,752** | P | 137,407,335 | P | 64,317,582 |
| Loss on sale of investment | 10 | | **35,422,273** | | - | | - |
| Association dues | | | **29,087,260** | | 34,312,370 | | 30,838,930 |
| Utilities | | | **26,148,135** | | 27,145,364 | | 23,737,070 |
| Security services | | | **17,529,361** | | 14,060,312 | | 12,753,420 |
| Documentation | | | **8,065,249** | | 10,159,405 | | 3,984,874 |
| Professional fees | | | **7,244,942** | | 5,531,073 | | 5,224,482 |
| Repairs and maintenance | | | **7,097,326** | | 5,305,360 | | 3,901,581 |
| Janitorial services | | | **5,368,875** | | 3,646,844 | | 821,164 |
| Office supplies | | | **5,248,190** | | 8,786,138 | | 7,437,949 |
| Outside services | | | **3,824,093** | | 3,263,566 | | 2,542,755 |
| Insurance | | | **3,234,555** | | 3,136,770 | | 2,049,623 |
| Marketing events and awards | | | **1,201,920** | | 649,537 | | 704,852 |
| Representation | | | **646,371** | | 524,485 | | 415,232 |
| Miscellaneous | | | **16,691,114** | | 14,790,840 | | 14,666,327 |
| | | **P** | **329,796,416** | P | 268,719,399 | P | 173,395,841 |

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

## 19. FINANCE INCOME AND COSTS

The details of this account are shown below.

### *19.1 Finance Income*

| | Notes | **2013** | 2012 | 2011 |
|---|---|---|---|---|
| Interest income: | | | | |
| Trade and other receivables | 6 | **P 267,456,702** | P 319,203,884 | P 216,384,588 |
| Advances to related parties | 22.1 | **108,034,380** | 109,628,132 | 98,097,627 |
| Cash and cash equivalents | 5 | **16,201,060** | 24,447,560 | 19,856,160 |
| Tuition fees | | **1,027,354** | 1,006,313 | 1,143,182 |
| | | **392,719,496** | 454,285,889 | 335,481,557 |
| Amortization of day one loss on noninterest – bearing financial instruments | 6, 22.1 | **51,293,349** | 36,622,653 | 38,850,698 |
| Dividend income | 11 | **42,788,000** | 40,536,000 | 44,395,338 |
| Foreign currency gains – net | | **5,775,947** | - | - |
| Gain on disposal of AFS financial assets | | **-** | - | 4,401,401 |
| Gain on disposal of financial assets at FVTPL | | **-** | - | 3,337,364 |
| Fair value losses on financial assets at FVTPL | | **-** | - | ( 616,308) |
| | | **P 492,576,792** | P 531,444,542 | P 425,850,050 |

### *19.2 Finance Cost*

The breakdown of Finance cost is shown below.

| | Notes | **2013** | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|---|
| Interest expense on advances from related parties | 22.1 | **P 117,115,432** | P 84,211,966 | P 51,600,951 |
| Net interest expense on post-employment defined benefit obligation | 20.2 | **9,457,306** | 7,799,450 | 6,716,405 |
| Foreign currency losses – net | | **-** | 4,619,214 | - |
| | | **P 126,572,738** | P 96,630,630 | P 58,317,356 |

## 20. SALARIES AND EMPLOYEE BENEFITS

### *20.1 Salaries and Employee Benefits Expense*

Expenses recognized for employee benefits are presented below.

| | Note | **2013** | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|---|
| Short-term benefits | | **P 219,979,783** | P 173,004,160 | P 141,878,152 |
| Post-employment benefits | 20.2 | **35,528,471** | 18,020,056 | 12,810,445 |
| | | **P 255,508,254** | P 191,024,216 | P 154,688,597 |

### *20.2 Post-employment Benefits*

*(a) Characteristics of the Defined Benefit Plan*

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

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

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

Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. All amounts presented below 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 amounts of retirement benefit defined obligation recognized in the consolidated statements of financial position are determined as follows:

| | **2013** | 2012 (As Restated – see Note 2.2) |
|---|---|---|
| Present value of the obligation | **P 300,366,865** | P 158,756,207 |
| Fair value of the assets | **( 11,486,428)** | ( 8,453,807) |
| | **P 288,880,437** | P 150,302,400 |

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

| | **2013** | 2012 (As Restated – see Note 2.2) |
|---|---|---|
| Balance at beginning of year | **P 158,756,207** | P 129,080,053 |
| Current service cost | **35,528,471** | 18,020,056 |
| Interest expense | **9,942,846** | 8,114,452 |
| Remeasurements | | |
| Actuarial losses arising from | | |
| - changes in financial assumptions | **98,849,047** | 3,224,238 |
| - experience adjustments | **( 2,709,706)** | 317,408 |
| Balance at end of year | **P 300,366,865** | P 158,756,207 |

The movement in the fair value of plan assets is presented below.

| | 2013 | 2012 (As Restated – see Note 2.2) |
|---|---|---|
| Balance at beginning of year | **P 8,453,807** | P 5,097,127 |
| Contributions to plan | **3,200,000** | 3,200,000 |
| Interest income | **485,540** | 315,002 |
| Return on plan assets (excluding amounts included in net interest | **( 652,919)** | ( 158,322) |
| Balance at end of year | **P 11,486,428** | P 8,453,807 |

The Group's plan assets only consist of cash and cash equivalents as of December 31, 2013 and 2012 and do not comprise any of the Company's financial instruments or any of its assets occupied and/or used in its operations.

The plan assets incurred negative returns of P0.17 million in 2013 and earned return of P0.16 million in 2012.

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

| | Notes | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|---|
| *Reported in profit or loss:* | | | | |
| Current service cost | 20.1 | **P 35,528,471** | P 18,020,056 | P 12,810,445 |
| Net interest expense | 19.2 | **9,457,306** | 7,799,450 | 6,716,405 |
| | | **P 44,985,777** | P 25,819,506 | P 19,526,850 |
| *Reported in other comprehensive income:* | | | | |
| Actuarial losses (gains) arising from: | | | | |
| - changes in financial assumptions | | **P 98,849,047** | P 3,224,238 | P 39,830,014 |
| - experience adjustments | | **( 2,709,706)** | 317,408 | ( 7,832,843) |
| Return on plan assets (excluding amounts included in net interest) | | **652,919** | 158,322 | 158,238 |
| | | **P 96,792,260** | P 3,699,968 | P 32,155,409 |

Current service cost is presented as part of Salaries and Employee Benefits under Costs and Expenses in the consolidated statements of comprehensive income (see Note 20.1) while the amounts of net interest expense is included as part of Finance Costs under Costs and Expenses in the consolidated statements of comprehensive income (see Note 19.2).

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

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| *Company* | | | |
| Discount rates | **5.32%** | 6.44% | 6.29% |
| Expected rate of salary increases | **10.00%** | 8.00% | 8.00% |
| *EPHI* | | | |
| Discount rates | **5.65%** | 6.18% | 6.00% |
| Expected rate of salary increases | **6.00%** | 8.00% | 8.00% |
| *LBASI* | | | |
| Discount rate | **5.17%** | 5.64% | 8.00% |
| Expected rate of salary increases | **6.00%** | 5.00% | 10.00% |

For other subsidiaries, as their accounting and other administrative functions are being handled by the Company, recognition of cost of retirement benefits is not necessary.

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of an individual for both males and females are as follows:

| | Retirement Age | Average Remaining Working Life |
|---|---|---|
| Company | 60 | 28 |
| LBASI | 60 | 24 |
| EPHI | 60 | 21 |

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government 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, longevity risk and salary risk.

*Interest Risks*

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.

*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, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

*Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2013:

| | Impact on Post-employment Benefit Obligation | | |
|---|---|---|---|
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| *Company* | | | |
| Discount rate | +0.50%/-1.00% | ( 41,570,957 ) | 51,824,55 |
| Salary increase rate | +0.75%/-1.25% | 46,249,221 | ( 38,411,489 ) |
| *LBASI* | | | |
| Discount rate | +/-1.00% | ( 557,697 ) | 693,575 |
| Salary increase rate | +/-1.00% | 641,647 | ( 530,851 ) |
| *EPHI* | | | |
| Discount rate | +/-0.50% | ( 2,355,692 ) | 2,604,416 |
| Salary increase rate | +/-2.00% | 15,588,813 | ( 9,414,363 ) |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the 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 above 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 liability 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.

*Asset-liability Matching Strategies*

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

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

*Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P285.3 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 10 years' time when a significant number of employees is expected to retire.

The Company expects to make contribution of P2.0 million to the plan during the next financial year.

The maturity profile of undiscounted expected benefit payments from the plan follows:

| | |
|---|---|
| Within one year | P 1,299,026 |
| More than one year to five years | 12,551,481 |
| More than five years to ten years | 107,576,032 |
| | P 121,426,539 |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 to 21 years.

## 21. TAXES

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

| | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|
| *Reported in profit or loss* | | | |
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 30% and 10% | **P 58,642,014** | P 47,323,257 | P 37,572,190 |
| Capital gains tax at 10% | **16,334,686** | - | - |
| Final tax at 20% and 7.5% | **3,131,633** | 4,749,031 | 3,783,064 |
| Stock transaction tax | **-** | - | 2,402,489 |
| Minimum corporate income tax (MCIT) at 2% | **-** | - | 1,114 |
| | **78,108,333** | 52,072,288 | 43,758,857 |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | **92,028,022** | 22,714,748 | ( 9,000,156) |
| | **P 170,136,355** | P 74,787,036 | P 34,758,701 |
| *Reported in other comprehensive income –* | | | |
| Deferred tax income at 30% and 10% relating to origination and reversal of temporary differences | **(P 28,805,985)** | (P 929,818) | (P 9,487,970) |

LBASI, as an educational institution, is subject to 10% tax on its taxable income as defined under the tax regulations.

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense is as follows:

| | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|
| Tax on pretax profit at 30% and 10% | **P 171,138,247** | P 89,231,241 | P 97,863,555 |
| Adjustment for income subjected to lower income tax rates: | | | |
| Capital gains tax | **( 13,689,927)** | - | - |
| Final tax | **( 1,649,690)** | ( 2,372,586) | ( 1,952,216) |
| Stock transaction tax | **-** | - | 2,402,489 |
| Tax effects of: | | | |
| Nontaxable income | **( 12,856,959)** | ( 23,299,281) | ( 75,108,247) |
| Nondeductible expenses | **17,082,179** | 6,766,579 | 820,861 |
| Unrecognized deferred tax assets | **10,112,505** | 14,073,191 | 10,304,658 |
| Deductible issuance costs | **-** | ( 10,103,013) | - |
| Others – net | **-** | 490,905 | 427,601 |
| Tax expense reported in profit or loss | **P 170,136,355** | P 74,787,036 | P 34,758,701 |

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

| | Consolidated Statements of Financial Position | | Consolidated Statements of Comprehensive Income | | |
|---|---|---|---|---|---|
| | 2013 | 2012 (As Restated – see Note 2.2) | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
| Deferred tax assets: | | | | | |
| Retirement benefit obligation | **P 85,593,828** | P 44,380,202 | **(P 12,407,640)** | (P 6,667,694) | (P 5,216,262) |
| Unamortized past service cost | **2,400,000** | 1,773,000 | **( 627,000)** | ( 423,000) | ( 399,000) |
| Unrealized foreign currency losses - net | **-** | 1,385,764 | **-** | ( 1,385,764) | 1,284,426 |
| Accrued rent | **78,144** | 109,898 | **31,754** | ( 59,674) | 364,122 |
| Net operating loss carryover (NOLCO) | **-** | - | - | - | ( 1,034,824) |
| MCIT | **-** | - | - | - | 7,068 |
| | **88,071,972** | 47,648,864 | **( 13,002,886)** | ( 8,536,132) | ( 4,994,470) |
| Deferred tax liabilities: | | | | | |
| Uncollected realized gross profit | **( 1,026,966,308)** | ( 918,819,728) | **108,146,579** | 36,907,489 | 30,538,969 |
| Capitalized borrowing cost | **( 236,853,126)** | ( 243,087,345) | **( 6,234,219)** | ( 5,656,609) | ( 34,544,655) |
| Unrealized foreign exchange gains – net | **( 1,732,784)** | - | **3,118,548** | - | - |
| Accrued rent | **-** | - | **-** | - | - |
| | **( 1,265,552,218)** | ( 1,161,907,073) | **105,030,908** | 31,250,880 | ( 4,005,686) |
| Deferred Tax Expense (Income) | | | **P 92,028,022** | P 22,714,748 | (P 9,000,156) |
| Net Deferred Tax Liabilities | **P 1,177,480,246** | P 1,114,258,209 | | | |

The deferred tax income recognized in other comprehensive income amounting to P28.8 million, P0.9 million and P9.5 million in 2013, 2012 and 2011, respectively, pertains to the tax effect of remeasurement of retirement benefit obligation.

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

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

| Subsidiary | Year Incurred | Amount | Valid Until |
|---|---|---|---|
| EECI | 2013 | P 33,552,513 | 2016 |
| | 2012 | 45,231,215 | 2015 |
| | 2011 | 39,432,442 | 2014 |
| SPLI | 2013 | 158,754 | 2016 |
| | 2012 | 165,981 | 2015 |
| | 2011 | 161,714 | 2014 |
| SOHI | 2013 | 1,332,016 | 2016 |
| | 2012 | 1,150,692 | 2015 |
| | 2011 | 1,162,432 | 2014 |
| VVPI | 2013 | 271,483 | 2016 |
| | 2012 | 262,501 | 2015 |
| | 2011 | 259,494 | 2014 |

EECI, SPLI, SOHI and VVPI did not recognize deferred tax assets on their respective NOLCO as management believes that the related deferred tax assets may not be recovered within the prescriptive period. The amount of NOLCO as of the end of 2013 for which the related deferred tax asset has not been recognized amounted to a total of P35.3 million with a total tax effect of P10.6 million.

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

| | Assets | Deficit | Revenues | Net Loss |
|---|---|---|---|---|
| **2013** | | | | |
| EECI | P 28,397,146 | P 167,892,337 | P 20,746,854 | P 33,549,522 |
| SPLI | 511,899,161 | 9,326,437 | - | 158,754 |
| SOHI | 16,936,665 | 7,282,275 | - | 1,505,855 |
| VVPI | 90,918,618 | 3,275,078 | - | 271,483 |
| | **P 648,151,590** | **P 187,776,127** | **P 20,746,854** | **P 35,485,614** |
| 2012 | | | | |
| EECI | P 19,256,571 | P 134,342,815 | P 16,417,537 | P 45,224,030 |
| SPLI | 511,859,612 | 9,167,683 | - | 165,982 |
| SOHI | 16,840,595 | 5,776,420 | - | 1,150,692 |
| VVPI | 90,814,617 | 3,003,595 | - | 753,406 |
| | P 638,771,395 | P 152,290,513 | P 16,417,537 | P 47,294,110 |

In 2013, 2012 and 2011, the Group opted to claim itemized deductions in computing for its tax due.

## 22. RELATED PARTY TRANSACTIONS

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

The summary of the Group's significant transactions with its related parties as of and for the years ended December 31, 2013, 2012 and 2011 are as follows:

| Related Party Category | Notes | Amounts of Transaction 2013 | 2012 | 2011 | Outstanding Balance 2013 | 2012 |
|---|---|---|---|---|---|---|
| **Ultimate Parent:** | | | | | | |
| AFS financial assets | 11 | **P1,017,904,000** | P 464,392,000 | P 352,382,960 | **P2,905,080,000** | P1,887,176,000 |
| Dividend income | 19.1 | **42,788,000** | 40,536,000 | 44,395,338 | **-** | - |
| | | **P1,060,692,000** | P 504,928,000 | P 396,778,298 | **P2,905,080,000** | P1,887,176,000 |
| **Advances to related parties:** | | | | | | |
| **Associates:** | 22.1 | | | | | |
| Loans and interest | | **(P 913,981,506)** | P 102,712,258 | P 811,269,247 | **P -** | P 913,981,506 |
| Capital expenditure | | **( 231,570,819)** | - | 231,570,819 | **-** | 231,570,819 |
| Working capital | | **5,778,194** | 42,563,867 | 61,466,469 | **284,200,727** | 278,422,533 |
| | | **(P 1,139,774,131)** | P 145,276,125 | P1,104,306,535 | **P 284,200,727** | P1,423,974,858 |
| **Under common ownership:** | 22.1 | | | | | |
| Loans and interest | | **P1,029,390,050** | P 2,219,097 | (P 15,686,203) | **P1,063,221,733** | P 33,831,683 |
| Investment | | **242,250,000** | - | - | **242,250,000** | - |
| Capital expenditure | | **231,570,819** | - | | **234,164,981** | 2,594,162 |
| Working capital | | **2,962,841** | ( 91,285,366) | 106,779 | **229,954,333** | 226,991,492 |
| | | **P 1,506,173,710** | (P 89,066,269) | (P 15,579,424) | **P1,769,591,047** | P 263,417,337 |

| Related Party Category | Note | Amounts of Transaction 2013 | Amounts of Transaction 2012 | Amounts of Transaction 2011 | Outstanding Balance 2013 | Outstanding Balance 2012 |
|---|---|---|---|---|---|---|
| **Advances from related parties:** | | | | | | |
| **Parent Company:** | 22.1 | | | | | |
| Loans and interest | | **P 1,151,623,215** | (P 84,645,102) | (P 49,709,285) | **P 610,004,941** | (P 541,618,274) |
| Capital expenditure | | **( 25,795,000)** | ( 1,494,000,000) | ( 209,076,757) | **( 1,728,871,757)** | ( 1,703,076,757) |
| Working capital | | **8,154,691** | 68,052,310 | 109,954,915 | **( 71,578,461)** | ( 79,733,152) |
| | | **P1,133,982,906** | (P1,510,592,792) | (P 148,831,127) | **(P1,190,445,277)** | (P2,324,428,183) |
| **Associates:** | 22.1 | | | | | |
| Capital expenditure | | **P -** | (P 380,770,134) | P - | **(P 380,770,134)** | (P 380,770,134) |
| Working capital | | **( 493,543)** | ( 6,432,028) | - | **( 6,925,571)** | ( 6,432,030) |
| | | **(P 493,543)** | (P 387,202,162) | P - | **(P 387,695,705)** | (P 387,202,164) |
| **Under common ownership:** | 22.1 | | | | | |
| Loans and interest | | **P -** | (P 65,021) | (P 54,381) | **P -** | P - |
| Capital expenditure | | **11,250,000** | 10,921,754 | ( 39,375,000) | **( 63,367,245)** | ( 74,617,246) |
| Working capital | | **( 37,500,000)** | 37,500,000 | 32,557,809 | **( 1,845,757)** | 35,654,242 |
| | | **(P 26,250,000)** | P 48,356,733 | (P 6,871,572) | **(P 65,213,002)** | (P 38,963,000) |

The Group's outstanding receivables from and payables to related parties arising from interest-bearing loans, joint venture agreements, lease of property and cash advances to related party are unsecured and demandable anytime.

### *22.1 Advances to and from Related Parties*

Entities within the Group obtain advances from the related parties for working capital requirements and other purposes.

The details of Advances to Related Parties as presented in the consolidated statements of financial position are as follows:

| | **2013** | 2012 |
|---|---|---|
| SPI | **P 1,468,674,266** | P 1,175,024,983 |
| MCPI | **284,200,726** | 248,949,873 |
| First Oceanic Property Management, Inc. | **34,449,016** | 34,449,016 |
| Other related parties | **266,467,766** | 228,968,323 |
| | **P 2,053,791,774** | P 1,687,392,195 |

The movements in the advances to related parties are shown below.

| | Notes | **2013** | 2012 |
|---|---|---|---|
| Balance at beginning of year | | **P 1,687,392,195** | P 1,631,182,339 |
| Additional advances | | **161,150,136** | 209,478,484 |
| Reclassification | 10.2 | **242,250,000** | - |
| Collections received | | **( 37,000,557)** | ( 163,863,719) |
| Deconsolidation of GPMAI balance | | **-** | 8,375,994 |
| Amortization of interest | 19 | **-** | 2,219,097 |
| Balance at end of year | | **P 2,053,791,774** | P 1,687,392,195 |

In 2012, a portion of the Group's advances to SPI amounting to P204.8 million is presented as part of net investment and now reclassified to Advances to related parties (see Note 10.2).

The details of Advances from Related Parties are as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| Advances from parent company: | | | |
| Balance at beginning of year | | **P 2,324,428,183** | P 813,835,394 |
| Additions | | **141,745,633** | 1,579,370,810 |
| Repayments | | **( 1,275,728,539)** | ( 68,778,021) |
| Balance at end of year | | **P 1,190,445,277** | P 2,324,428,183 |
| Advances from associates and related parties under common ownership: | | | |
| Balance at beginning of year | | **P 426,165,164** | P 87,319,733 |
| Additions | | **493,543** | 381,596,376 |
| Deconsolidation of GPMAI balance | | **-** | 6,323,193 |
| Repayments | | **( 11,250,000)** | ( 11,639,159) |
| Reclassification | | **37,500,000** | ( 37,500,000) |
| Amortization of interest | 19 | **-** | 65,021 |
| Balance at end of year | | **P 452,908,707** | P 426,165,164 |
| Total advances from related parties: | | | |
| Balance at beginning of year | | **P 2,750,593,347** | P 901,155,124 |
| Additions | | **142,239,176** | 1,960,967,186 |
| Deconsolidation of GPMAI balance | | **-** | 6,323,193 |
| Repayments | | **( 1,286,978,539)** | ( 80,417,177) |
| Reclassification | | **37,500,000** | ( 37,500,000) |
| Amortization of interest | 19 | **-** | 65,021 |
| Balance at end of year | | **P 1,643,353,984** | P 2,750,593,347 |

These advances to/from stockholders, associates and other related parties are generally unsecured. Some of these are interest-bearing (see Note 19.1). The amounts are generally collectible/payable in cash on demand or through offsetting arrangements with the related parties; hence, their carrying values are considered to be a reasonable approximation of their fair values.

Certain advances to and from related parties were discounted to present values. Amortization of interest is presented as part of Finance Income in the 2012 consolidated statements of comprehensive income (see Note 19.1).

### *22.2 Marketing Fee*

The Group earns marketing fee from the sale of Megaworld's real estate properties and also from the sale of landowners' share/units in the joint venture projects with the Group. The marketing fee recognized amounted to P147.6 million, P149.6 million and P149.8 million in 2013, 2012 and 2011, respectively, which is presented as Commission in the consolidated statements of comprehensive income. The related receivables arising from marketing fees are presented as part of Advances to Related Parties in the consolidated statements of financial position (see Note 22.1).

### *22.3 Commercial/Term Loan*

In 2012, the Group has an outstanding commercial/term loan from a government institution bearing an annual interest rate of 10.5%. This loan is secured by certain real estate properties owned by a stockholder of the Company (see Note 14.2).

### *22.4 Deed of Assignment*

In June 2011, Fil-Estate Properties, Inc. (FEPI), a related party under common ownership, has agreed to assign the right to develop a certain property. In consideration of the assignment, the Group shall pay FEPI a non-refundable cash consideration totaling P60.0 million. As of December 31, 2013 and 2012, the unpaid portion of the cash consideration amounting to P16.8 million and P28.1 million, respectively, is presented as part of the Advances from Related Parties account in the consolidated statements of financial position.

### *22.5 Key Management Personnel Compensation*

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

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Short-term benefits | **P 25,295,848** | P 23,386,710 | P 19,276,453 |
| Post-employment benefits | **4,726,022** | 7,692,779 | 3,112,283 |
| | **P 30,021,870** | P 31,079,489 | P 22,388,736 |

These are presented as part of Salaries and Employee Benefits under Cost and Expenses in the consolidated statements of comprehensive income for the years ended December 31, 2013, 2012 and 2011 (see Note 20.1).

### *22.6 Retirement Plan*

The Group's retirement fund for its post-employment defined benefit plan is administered and managed by a trustee bank. The plan assets solely consist of cash and cash equivalents amounting to P11.5 million and P8.5 million as of December 31, 2013 and 2012, respectively (see Note 20.2).

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

The details of the contributions of the Group and benefits paid out by the plan are presented in Note 20.2.

## 23. EQUITY

### *23.1 Capital Stock*

Capital stock consists of:

| | Shares | | Amount | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Common shares – P1 par value | | | | |
| Authorized: | | | | |
| Balance at beginning of year | **31,495,200,000** | 21,495,200,000 | **P 31,495,200,000** | P 21,495,200,000 |
| Additions during the year | **-** | 10,000,000,000 | **-** | 10,000,000,000 |
| Balance at end of year | **31,495,200,000** | 31,495,200,000 | **31,495,200,000** | 31,495,200,000 |
| Issued: | | | | |
| Balance at beginning of year | **13,603,455,238** | 10,622,492,325 | **13,603,455,238** | 10,622,492,325 |
| Issuance during the year | **1,200,000,000** | 2,980,962,913 | **1,200,000,000** | 2,980,962,913 |
| Balance at end of year | **14,803,455,238** | 13,603,455,238 | **14,803,455,238** | 13,603,455,238 |
| Preferred shares – P1 par value | | | | |
| Authorized, issued and outstanding | **2,000,000,000** | 2,000,000,000 | **2,000,000,000** | 2,000,000,000 |
| Subscribed and outstanding: | | | | |
| Balance at beginning of year | **-** | 285,723,080 | **-** | 285,723,080 |
| Conversion to common shares | **-** | ( 285,723,080) | **-** | ( 285,723,080) |
| Balance at end of year | **-** | - | **-** | - |

On June 26, 2013, the Company issued additional 1.2 billion common shares to Megaworld at P1.05 per share for a total cash consideration of P1.3 billion resulting to additional paid in capital of P60.0 million. Megaworld's ownership interest in the Company as of December 31, 2013 and 2012 is 81.53% and 78.59%, respectively.

On April 24, 2012, the Company's BOD approved the offer for subscription of 2,695,239,834 new shares (the "right shares") by way of a pre-emptive offer (the "rights offer") to holders of its common shares at the proportion of one new share for every four existing common shares, at the offer/exercise price equivalent to their par value of P1 per share. This was approved by SEC on August 30, 2012.

Also, on April 24, 2012, the BOD approved the increase in the Company's authorized capital stock from P23.5 billion divided into 21.5 billion common and 2.0 billion preferred shares both with par value of P1 each, to P33.5 billion divided into 31.5 billion common and 2.0 billion preferred shares both with par value of P1 per share. The application for the increase in authorized capital stock was approved by the SEC on October 17, 2012.

The Series B preferred shares are nonredeemable, convertible into common shares and are nonvoting. The shares have zero coupon rate and shall not be entitled to dividends. The Series B preferred shares shall be convertible to common shares anytime after the end of the 18 months from the implementation date, May 29, 1998, as defined in the subscription agreements. On August 31, 2012, the Company converted all the issued preferred shares into common shares amounting to P285.7 million.

On April 24, 1996, the Company obtained approval for the listing of its common stock on the PSE; thereafter, the shares were offered for the sale to the public. The initial public offering consists of 214,666,667 new common shares and the sale by a stockholder of the Company of 210,333,333 existing common shares at an offer price of P12.90 per share.

As of December 31, 2013 and 2012, the Company's outstanding number of shares totalled 14,676,199,167 and 13,476,199,167, respectively, with total of 127,256,071 treasury stock as of the end of both years in which 13,603,455,238 as of December 31, 2013 and 2012 were listed and closed at a price of P0.92 and P0.99 per share (as of December 27, 2013 and December 28, 2012, respectively). The Company has 12,894 and 13,125 holders of equity securities listed in PSE as of December 31, 2013 and 2012, respectively.

### *23.2 Treasury Stock*

The details of this account are as follows:

| | Shares | | | Amount | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | **2013** | 2012 | 2011 |
| Balance at beginning of year | **127,256,071** | 153,911,071 | 153,911,071 | **P 102,106,658** | P 116,233,808 | P 116,233,808 |
| Deconsolidation of GPMAI | **-** | ( 26,655,000) | - | **-** | ( 14,127,150) | - |
| Balance at end of year | **127,256,071** | 127,256,071 | 153,911,071 | **P 102,106,658** | P 102,106,658 | P 116,233,808 |

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

### *23.3 Retained Earnings*

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

## 24. EARNINGS PER SHARE

Earnings per share amounts were computed as follows:

| | **2013** | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|
| Basic earnings per share: | | | |
| Net profit attributable to parent company's shareholders | **P 299,466,849** | P 234,603,385 | P 179,624,379 |
| Divided by the weighted average number of issued and outstanding common shares | **14,057,360,265** | 11,181,475,712 | 10,468,581,253 |
| | **P 0.021** | P 0.021 | P 0.017 |

| | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|
| Diluted earnings per share: | | | |
| Net profit attributable to parent company's shareholders | **P 299,466,849** | P 234,603,385 | P 179,624,379 |
| Divided by the weighted average number of issued and outstanding common shares and potential common shares from assumed conversion of convertible Series B preferred shares | **14,057,360,265** | 11,371,696,831 | 10,754,304,333 |
| | **P 0.021** | P 0.021 | P 0.017 |

## 25. COMMITMENTS AND CONTINGENCIES

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

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

The Group is a lessor under several operating leases covering real estate properties for commercial use. The leases have terms ranging from one to three years, with renewal options, and include annual escalation rates of 2% to 10%. The average annual rental covering these agreements amounts to about P121.4 million in 2013, P45.0 million in 2012 and P47.6 million in 2011.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Within one year | **P 24,439,210** | P 18,699,525 | P 15,520,714 |
| After one year but not more than five years | **66,825,230** | 5,499,839 | 4,279,758 |
| More than five years | **-** | 5,976,632 | 11,261,850 |
| | **P 91,264,440** | P 30,175,996 | P 31,062,322 |

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

The Group is a lessee under non-cancellable operating leases covering certain offices, showroom and parking slots. Leases have terms ranging from one to four years, with renewal options and include annual escalation rate of 2% to 10%. The future minimum rentals payable under these non-cancellable operating leases as of December 31 are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Within one year | **P 38,496,570** | P 36,893,558 | P 37,253,043 |
| After one year but not more than five years | **38,161,726** | 23,383,968 | 30,756,435 |
| | **P 76,658,296** | P 60,277,526 | P 68,009,478 |

Total rentals from these operating leases which was charged to Rentals under Other Expenses in the consolidated statements of comprehensive income amounted to P163.5 million, P137.4 million and P64.3 million in 2013, 2012 and 2011, respectively (see Note 18.2).

### *25.3 Legal Claims*

As of December 31, 2013, the Group is a party to a litigation arising in the normal course of business. No provision for contingency was recognized in the consolidated financial statements because the ultimate outcome of this litigation cannot presently be determined. In addition, the Group's management believes that the impact of which to the consolidated financial statements, taken as a whole, is not material.

### *25.4 Credit Lines*

The Group has existing credit lines with local banks for a maximum amount of P2.9 billion, P3.3 billion, and P3.8 billion as of December 31, 2013, 2012 and 2011, respectively. The Group has unused lines of credit amounting to P670.0 million as of December 31, 2013 and 2012 and P168.0 million as of December 31, 2011.

### *25.5 Capital Commitments*

The Group has capital commitments for the unutilized balance of its stock rights offering amounting to P12.2 million as of December 31, 2013 for the land banking, project development and general corporate purposes.

### *25.6 Others*

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

## 26. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

### *26.1 Market Risk*

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

*(a) Foreign Currency Risk*

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

The Group's U.S. dollar-denominated financial assets, translated into Philippine pesos at the closing rate, amounted to P81.1 million, P77.1 million and P90.3 million as of December 31, 2013, 2012 and 2011, respectively. There were no U.S. dollar-denominated financial liabilities as of December 31, 2013, 2012 and 2011.

At December 31, 2013, 2012 and 2011, if the Philippine peso had strengthened by 23.40%, 15.67% and 16.23% against the U.S. dollar with all other variables held constant, profit before tax for the year would have been lower by P19.0 million, P12.1 million and P14.7 million, respectively, mainly as a result of foreign currency loss on translation of U.S. dollar-denominated cash and cash equivalents.

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

The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of reporting period.

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

*(b) Interest Rate Risk*

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

The following paragraph presents the sensitivity of the net result for the year and equity to a reasonably possible change in interest rate of +/- 2.14% and +/- 2.16% for cash and cash equivalents and interest-bearing loans and borrowings, respectively, in 2013, +/- 1.53% and +/- 3.65% for cash and cash equivalents and interest-bearing loans and borrowings, respectively, in 2012 and, +/- 0.66% and +/- 0.76% for cash and cash equivalents and interest-bearing loans and borrowings, respectively, in 2011. These changes are considered to be reasonably possible based on observation of current market conditions. The calculation is based on changes in the average market interest rates for the period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

If the interest rates were to increase, net profit before tax would increase by P5.3 million and P31.6 million in 2013 and 2012, respectively, and decrease by P2.9 million in 2011. If interest rates were to decrease, net profit before tax would decrease in 2013 and 2012 and increase in 2011 by the same amounts.

The movements in interest rates used in the sensitivity analysis are considered reasonably possible and are based on observation of interest rate fluctuations for the past 12 months using a 99%-confidence level. The calculations are based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year.

*(c) Other Price Risk*

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

For equity securities listed in the Philippines, an average volatility of 73.12%, 49.09% and 33.63% has been observed during 2013, 2012 and 2011. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by P2.1 billion in 2013, P530.8 million in 2012 and P516.8 million in 2011.

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

The Group is subject to equity securities price risk because of investments held by the Group and classified on the consolidated statements of financial position as AFS financial assets.

The Group is not subject to commodity price risk.

### *26.2 Credit Risk*

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

| | Notes | **2013** | 2012 |
|---|---|---|---|
| Cash and cash equivalents | 5 | **P 504,471,331** | P 3,033,222,982 |
| Trade and other receivables – net (excluding advances to suppliers and contractors) | 6 | **4,535,668,171** | 4,208,570,334 |
| Advances to related parties | 22 | **2,053,791,774** | 1,687,392,195 |
| | | **P 7,093,931,276** | P 8,929,185,511 |

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

*(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. Trade receivables consist of a large number of customers in various industries and geographical areas. Majority of the trade receivables are secured by postdated checks and titles to residential units sold to buyers are retained to the Group until such time that the outstanding balance is collected in full. Based on historical information about customer default rates, management consider the credit quality of trade receivables that are not past due or impaired to be good.

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

| | **2013** | 2012 |
|---|---|---|
| Not more than 3 months | **P 66,282,246** | P 35,590,337 |
| More than 3 months but not more than 6 months | **126,380,754** | 173,049,418 |
| More than 6 months but not more than one year | **193,346,546** | 207,286,843 |
| More than one year | **60,038,070** | 45,793,567 |
| | **P 446,047,616** | P 461,720,165 |

(c) *Advances to Related Parties*

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

The table below shows the credit quality by class of financial assets as of December 31, 2013.

| | Neither Past Due nor Specifically Impaired | | | Past Due or Individually Impaired | Total |
|---|---|---|---|---|---|
| | High Grade | Standard Grade | Substandard Grade | | |
| Cash and cash equivalents | P 504,471,331 | P - | P - | P - | P 504,471,331 |
| Trade and other receivables - net | 2,113,975,686 | 2,421,692,485 | - | - | 4,535,668,171 |
| Advances to related parties - net | 2,053,791,774 | - | - | - | 2,053,791,774 |
| | **P 4,672,238,791** | **P 2,421,692,485** | **P -** | **P -** | **P 7,093,931,276** |

This compares with the credit quality by class of financial assets as of December 31, 2012.

| | Neither Past Due nor Specifically Impaired | | | Past Due or Individually Impaired | Total |
|---|---|---|---|---|---|
| | High Grade | Standard Grade | Substandard Grade | | |
| Cash and cash equivalents | P 3,033,222,982 | P - | P - | P - | P 3,033,222,982 |
| Trade and other receivables - net | 2,014,211,517 | 2,194,358,817 | - | - | 4,208,570,334 |
| Advances to related parties - net | 1,687,392,195 | | - | - | 1,687,392,195 |
| | P 6,734,826,694 | P 2,194,358,817 | P - | P - | P 8,929,185,511 |

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

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

### *26.3 Liquidity Risk*

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

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, mutual funds 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 at December 31, 2013, the Group's financial liabilities have contractual maturities which are presented below.

| | Within 6 Months | 1 to 5 Years |
|---|---|---|
| Interest-bearing loans and borrowings | P 46,718,976 | P 217,927,707 |
| Trade and other payables | 377,303,492 | - |
| Advances from related parties | 1,643,353,984 | - |
| Other current liabilities | 287,912,670 | - |
| | **P2,355,289,122** | **P 217,927,707** |

This compares to the maturity of the Group's financial liabilities as of December 31, 2012.

| | Within 6 Months | 1 to 5 Years |
|---|---|---|
| Interest-bearing loans and borrowings | P 170,684,851 | P 413,846,258 |
| Trade and other payables | 891,315,116 | - |
| Advances from related parties | 2,750,593,347 | - |
| Other current liabilities | 180,245,087 | - |
| | P 3,992,838,401 | P 413,846,258 |

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

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

### *27.1 Carrying Amounts and Fair Values by Category*

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

| | | **2013** | | 2012 | |
|---|---|---|---|---|---|
| | Notes | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| ***Financial assets*** | | | | | |
| Loans and Receivables: | | | | | |
| Cash and cash equivalents | 5 | **P 504,471,331** | **P 504,471,331** | P 3,033,222,982 | P 3,033,222,982 |
| Trade and other receivables | 6 | **4,535,668,171** | **4,601,327,906** | 4,208,570,334 | 4,259,863,683 |
| Advances to related parties | 22.1 | **2,053,791,774** | **2,053,791,774** | 1,687,392,195 | 1,687,392,195 |
| | | **7,093,931,276** | **7,159,591,011** | 8,929,185,511 | 8,980,478,860 |
| AFS Financial Assets | 11 | **2,905,080,000** | **2,905,080,000** | 1,887,176,000 | 1,887,176,000 |
| | | **P 9,999,011,276** | **P 10,064,671,011** | P 10,816,361,511 | P 10,867,654,860 |

| | Notes | 2013 Carrying Values | 2013 Fair Values | 2012 Carrying Values | 2012 Fair Values |
|---|---|---|---|---|---|
| ***Financial Liabilities at amortized cost*** | | | | | |
| Interest-bearing loans and borrowings | 14 | **P 219,731,151** | **P 219,731,151** | P 389,883,462 | P 389,883,462 |
| Trade and other payables | 15 | **377,303,492** | **377,303,492** | 891,315,116 | 891,315,116 |
| Advances from related parties | 22.1 | **1,643,353,984** | **1,643,353,984** | 2,750,593,347 | 2,750,593,347 |
| Other current liabilities | 17 | **287,912,670** | **287,912,670** | 180,245,087 | 180,245,087 |
| | | **P 2,528,301,297** | **P 2,528,301,297** | P 4,212,037,012 | P 4,212,037,012 |

See Notes 2.4 and 2.8 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 26.

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

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

| | December 31 2013 | | |
|---|---|---|---|
| | Gross amounts in the statement of financial position | | Net amount presented in the statement of financial position |
| | Financial Assets | Financial Liabilities set-off | |
| Advances to related parties | **P 2,090,792,331** | **P 557** | **P 2,053,791,774** |

| | December 31 2012 | | |
|---|---|---|---|
| | Gross amounts in the statement of financial position | | Net amount presented in the statement of financial position |
| | Financial Assets | Financial Liabilities set-off | |
| Advances to related parties | P 1,851,255,914 | P 88,001,890 | P 1,687,392,195 |

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

| | December 31 2013 | | |
|---|---|---|---|
| | Gross amounts in the statement of financial position | | Net amount presented in the statement of financial position |
| | Financial Liabilities | Financial Assets set-off | |
| Advances from related parties | **P 2,930,332,523** | **P 9,812,366** | **P1,643,353,984** |

| | December 31 2012 | | |
|---|---|---|---|
| | Gross amounts in the statement of financial position | | Net amount presented in the statement of financial position |
| | Financial Liabilities | Financial Assets set-off | |
| Advances from related parties | P 2,862,187,331 | P 59,610,612 | P 2,750,593,347 |

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

## 28. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *28.1 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 that an entity can access at the measurement date;

*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 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.

### *28.2 Financial Instruments Measured at Fair Value*

As of December 31, 2013 and 2012, only the equity securities classified as AFS financial assets in the consolidated statements of financial position is classified as Level 1. These securities were valued based on their market prices quoted in the PSE at the end of each reporting period. There were no other financial assets measured at fair value on these dates. Further, the Group has no financial liabilities measured at fair value as of December 31, 2013 and 2012.

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

### *28.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed.

| | | Fair Value Hierarchy as at December 31, 2013 | | | |
|---|---|---|---|---|---|
| | Notes | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets*** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 5 | P 504,471,331 | P - | P - | P 504,471,331 |
| Trade and other receivables | 6 | - | - | 4,535,668,171 | 4,535,668,171 |
| Advances to related parties | 22 | - | - | 2,053,791,774 | 2,053,791,774 |
| | | **504,471,331** | **-** | **6,589,459,945** | **7,093,931,276** |
| ***Financial Liabilities at amortized cost*** | | | | | |
| Interest-bearing loans and borrowings | | P - | P - | P 219,731,151 | P 219,731,151 |
| Trade and other payables | | - | - | 377,303,492 | 377,303,492 |
| Advances from related parties | | - | - | 1,643,353,984 | 1,643,353,984 |
| Other current liabilities | | - | - | 287,912,670 | 287,912,670 |
| | | **P -** | **P -** | **P 2,528,301,297** | **P 2,528,301,297** |

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

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where significant inputs required to determine the fair value of such instruments are not based on observable market data.

### *28.4 Fair Value Measurement of Non-Financial Assets*

The table below shows the Levels within the hierarchy of non-financial assets for which fair value is disclosed as of December 31, 2013.

| | Fair Value Hierarchy as at December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment property: | | | | |
| Land | P - | P 8,400,000 | P - | P 8,400,000 |
| Buildings and office/commercial units | - | - | 513,206,740 | 513,206,740 |
| | **P -** | **P 8,400,000** | **P 513,206,740** | **P 521,606,740** |

The fair values of these non-financial assets were determined based on the following approaches:

*(a) Fair Value Measurement of Land*

The Level 2 fair value of land 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.

*(b) Fair Value Measurement of Building and Office/Residential Units*

The Level 3 fair value of the buildings and office/residential units was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

## 29. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

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

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

The Group monitors its capital gearing by measuring the ratio of Interest-bearing loans and borrowings to total capital. As of December 31, 2013 and 2012, the Group's ratio of Interest-bearing loans and borrowings to equity is as follows:

| | **2013** | 2012 |
|---|---|---|
| Interest-bearing loans and borrowings | **P 219,731,151** | P 389,883,462 |
| Total equity | **24,789,953,923** | 22,279,564,417 |
| Debt-to-equity ratio | **0.01 : 1** | 0.02 : 1 |

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for both years (see Note 14.1).

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

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1200 Makati City
Philippines

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**The Board of Directors and Stockholders**
**Empire East Land Holdings, Inc. and Subsidiaries**
***(A Subsidiary of Megaworld Corporation)***
21st Floor, The World Centre Building
330 Sen. Gil Puyat Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Empire East Land Holdings, Inc. and Subsidiaries (the Group) for the year ended December 31, 2013, on which we have rendered our report dated March 7, 2014. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**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)

March 7, 2014

**Empire East Land Holdings, Inc. and Subsidiaries**
**List of Supplementary Information**
**December 31, 2013**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule A - Financial Asset at Fair Value Through Profit or Loss**
**December 31, 2013**

| Name of Issuing Entity and Association of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount in Peso | Equity in earnings (losses) of investee for the period | Other | Distibution of earnings by investee | | Number of shares or principal amount of bonds and notes | Amount in Peso | Dividends received from investments not accounted for by the equity method |
|---|---|---|---|---|---|---|---|---|---|
| **AFS Financial Assets** | | | | | | | | | |
| Alliance Global Group, Inc. | 112,600,000 | P 2,905,080,000 | | | | | | P 2,905,080,000 | |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule B- Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**
**December 31, 2013**

| | | | Deductions | | Ending Balance | | |
|---|---|---|---|---|---|---|---|
| Name and designation of debtor | Balance at Beginning of period | Additions/Transfer 2013 | Amounts collected | Amounts written off | Current | Not current | Balance at end of period |
| **Advances to Officers and Employees:** | | | | | | | |
| Barrera, Julieta | P 10,803 | P 535,000 | ( P 200,702 ) | | P 345,101 | | P 345,101 |
| Cabrera, Edna Esperanza | 295,672 | | ( 70,717 ) | | 224,955 | | 224,955 |
| Cacho, Evelyn | 520,684 | | ( 105,012 ) | | 415,672 | | 415,672 |
| Chan, Ermanric | 123,930 | | ( 92,017 ) | | 31,913 | | 31,913 |
| Danenberg, Mercedes | 44,461 | | ( 44,461 ) | | - | | - |
| Domingo, Ma. Visitacion | 79,281 | | ( 67,603 ) | | 11,678 | | 11,678 |
| Edaño, Dennis | - | 1,040,000 | ( 27,656 ) | | 1,012,344 | | 1,012,344 |
| Gregorio, Ricardo | - | 905,754 | ( 423,710 ) | | 482,044 | | |
| Llaga, Jhoanna Lyndelou | 724,664 | | ( 110,935 ) | | 613,729 | | 613,729 |
| Llantada Jr. , Antonio | 559,367 | | ( 100,837 ) | | 458,530 | | 458,530 |
| Llena, Jose Arnel | 67,388 | | ( 67,388 ) | | ( 0 ) | | ( 0 ) |
| Libago, Ricky S. | 98,869 | 1,745,000 | ( 1,176,674 ) | | 667,195 | | 667,195 |
| Lim, Robert Edwin | 524,214 | | ( 524,214 ) | | ( 0 ) | | ( 0 ) |
| Madridejos, Arminus | 99,184 | | ( 81,572 ) | | 17,612 | | 17,612 |
| Manalastas, Gail | - | 587,000 | ( 225,491 ) | | 361,509 | | 361,509 |
| Manalac, Michael | 131,094 | | ( 81,345 ) | | 49,749 | | 49,749 |
| Pailan, Ellan Mark | - | 613,000 | ( 270,655 ) | | 342,345 | | 342,345 |
| Ramos, Franemil | 135,987 | | ( 91,965 ) | | 44,022 | | 44,022 |
| Sioson-Bumatay, Celeste Z. | - | 793,000 | ( 33,886 ) | | 759,114 | | 759,114 |
| | P 3,415,597 | P 6,218,753 | ( P 3,796,838 ) | - | P 5,837,512 | - | P 5,355,468 |

*Note: Please refer to Schedule C for Amounts Receivable from Related parties.*

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**
**December 31, 2013**

| Name and Designation of debtor | | Balance of beginning period | | Balance at the end of period |
|---|---|---|---|---|
| Eastwood Properties Holdings, Inc. | P | 1,316,806,782 | P | 1,279,306,782 |
| Empire East Communities Inc. | | 153,037,732 | | 195,231,139 |
| Laguna Bel Air School, Inc. | | 63,217,474 | | 58,076,420 |
| Valle Verde Properties, Inc. | | 62,461,212 | | 62,833,696 |
| Sherman Oak Holdings Inc. | | 17,083,015 | | 18,410,790 |
| Sonoma Premier Land Inc. | | 7,360,647 | | 7,566,950 |
| **TOTAL** | **P** | **1,619,966,862** | **P** | **1,621,425,777** |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule D - Intangible Assets - Other Assets**
**December 31, 2013**

| Description | Beginning Balance | Additions at Cost | Deduction: Charged to Cost and Expenses | Deduction: Charged to Other Accounts | Other Changes Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| Goodwill | P 78,326,757 | - | - | - | - | P 78,326,757 |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule E - Long-Term Debt**
**December 31, 2013**

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Amount Shown Under Caption"Current Portion of Long-term Debt" in Related Statement of Financial Position | Amount Shown Under Caption"Long-term Debt" in related Statement of Financial Position |
|---|---|---|---|
| **Loans** | **P 219,731,151** | **P 71,200,342** | **P 148,530,809** |

*Loans are payable up to 2017and bear interest at annual average rate of 7.8% to 10.5% per annum, subject to monthly repricing.*

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule F - Indebtedness to Related Parties (Other than Affiliates)**
**December 31, 2013**

| Name of Related Party | Balance at Beginning of Year | Balance at End of Year |
|---|---|---|
| Megaworld Corporation | P 2,324,428,182 | P 1,190,445,277 |
| Gilmore Property Marketing Association | 387,202,164 | 387,695,705 |
| Others | 38,963,001 | 65,213,002 |
| | P 2,750,593,347 | P 1,643,353,984 |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule H - Capital Stock**
**December 31, 2013**

| | | | | Number of Shares Held by | | |
|---|---|---|---|---|---|---|
| **Title of Issue** | **Number of Shares Authorized** | **Number of Shares Issued and Outstanding as Shown Under the Related Statement of Financial Position Caption** | **Number of Shares Reserved for Options, Warrants, Conversion and Other Rights** | **Related Parties** | **Directors, Officers and Employees** | **Others** |
| **Preferred shares** | **2,000,000,000** | - | | | | |
| **Common shares** | **31,495,200,000** | **14,676,199,167 *** | | **11,966,152,438** | | |

** Number of shares issued and outstanding net of 127,256,071 Treasury Shares.*

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule of Relevant Financial Ratios as Required**
**Under SRC Rule 68, as amended**
**For the years ended December 31,2013 and 2012**
***(Amounts in Philippine Pesos)***

| | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|
| **I. Current/liquidity ratios** | | | | |
| a. Current Ratio | | | | |
| Total Current Assets | P 22,025,338,171 | P 21,979,496,671 | 3.93 | 3.11 |
| Total Current Liabilities | 5,605,368,953 | 7,061,859,427 | | |
| b. Quick Ratio | | | | |
| (Cash and Cash Equivalents + Trade and Other Receivables) | 3,484,037,646 | 5,623,811,963 | 0.62 | 0.80 |
| Total Current Liabilities | 5,605,368,953 | 7,061,859,427 | | |
| **II. Solvency ratios** | | | | |
| a. Solvency Ratio | | | | |
| (Earnings Before Interest and Taxes) | 587,723,568 | 395,020,988 | 0.07 | 0.04 |
| Total Liabilities | 8,161,285,477 | 9,695,119,563 | | |
| b. Debt-to-Equity Ratio | | | | |
| Total Liabilities | 8,161,285,477 | 9,695,119,563 | 0.33 | 0.44 |
| Total Equity | 24,789,953,923 | 22,279,564,417 | | |
| **III. Asset-to-equity ratio** | | | | |
| Total Assets | 32,951,239,400 | 31,974,683,980 | 1.33 | 1.44 |
| Total Equity | 24,789,953,923 | 22,279,564,417 | | |
| **IV. Interest Coverage Ratio** | | | | |
| (Earnings Before Interest and Taxes) | 587,723,568 | 395,020,988 | 4.12 | 3.09 |
| Interest Expense | 142,514,494 | 127,988,279 | | |
| **V. Profitability Ratios** | | | | |
| a. Net Profit Margin | | | | |
| Net Profit | 300,471,781 | 236,021,986 | 18% | 17% |
| Revenues | 1,705,620,061 | 1,381,413,611 | | |
| b. Return on Equity | | | | |
| Net profit | 300,471,781 | 236,021,986 | 1% | 1% |
| Average Equity | 23,534,759,170 | 20,656,011,079 | | |
| c. Return on Assets | | | | |
| Net profit | 300,471,781 | 236,021,986 | 1% | 1% |
| Average Assets | 32,462,961,690 | 28,842,788,246 | | |

**EMPIRE EAST LAND HOLDINGS, INC.**
***(A Subsidiary of Megaworld Corporation)***
**21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City**

**Reconciliation of Retained Earnings Available for Dividend Declaration**
**For the Year Ended December 31, 2013**

| | | |
|---|---|---|
| **Unappropriated Retained Earnings at Beginning of Year, as restated** | | P 2,849,133,766 |
| **Prior Years' Outstanding Reconciling Items, net of tax** | | |
| Deferred tax income, as restated | | ( 38,048,680 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted** | | 2,811,085,086 |
| **Net Profit Realized during the Year** | | 388,922,502 |
| **Net profit per audited financial statements** | | |
| **Non-actual/unrealized income, net of tax** | | |
| Deferred tax income | P 18,031,096 | |
| Unrealized foreign currency gains | 5,775,947 | ( 23,807,043 ) |
| **Retained Earnings Restricted for Treasury Shares** | | ( 102,106,658 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at End of Year** | | **P 3,074,093,887** |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**Schedule of Philippine Financial Reporting Standards and Interpretations**
**Adopted by the Securities and Exchange Commission and the**
**Financial Reporting Standards Council as of December 31, 2013**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** | | ✓ | | |
| Conceptual Framework Phase A: Objectives and Qualitative Characteristics | | ✓ | | |
| **Practice Statement Management Commentary** | | | ✓ | |
| ***Philippine Financial Reporting Standards (PFRS)*** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | ✓ | | |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Government Loans | ✓ | | |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *(deferred application)* | | | ✓ |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments* *(effective January 1, 2015)* | | | ✓ |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective January 1, 2015)* | | | ✓ |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendment to PFRS 10: Transition Guidance | ✓ | | |
| | Amendment to PFRS 10: Investment Entities* *(effective January 1, 2014)* | | | ✓ |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendment to PFRS 11: Transition Guidance | ✓ | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendment to PFRS 12: Transition Guidance | ✓ | | |
| | Amendment to PFRS 12: Investment Entities* *(effective January 1, 2014)* | | | ✓ |
| **PFRS 13** | Fair Value Measurement | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| ***Philippine Accounting Standards (PAS)*** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | ✓ | | |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Revised)** | Employee Benefits | ✓ | | |
| | Amendment to PAS 19: Defined Benefit Plan - Employee Contributions* *(effective January 1, 2014)* | | | ✓ |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | ✓ | | |
| **PAS 27 (Revised)** | Separate Financial Statements | ✓ | | |
| | Amendment to PAS 27: Investment Entities* *(effective January 1, 2014)* | | | ✓ |
| **PAS 28 (Revised)** | Investments in Associates and Joint Ventures | ✓ | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32** | Financial Instruments: Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 32: Classification of Rights Issues | ✓ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2014)* | | | ✓ |

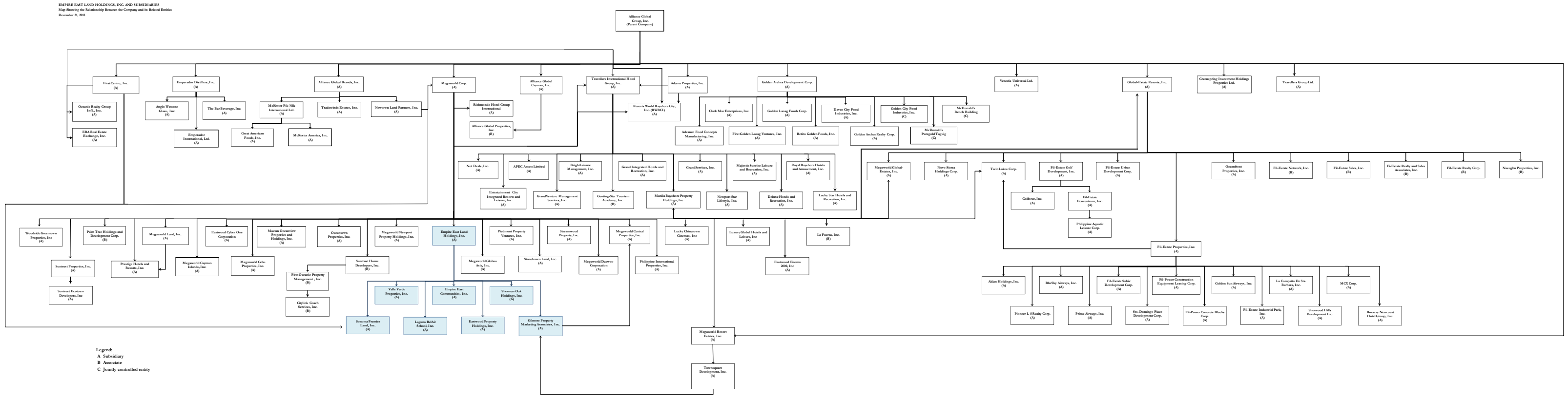
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets* *(effective January 1, 2014)* | | | ✓ |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | ✓ | | |
| | Amendments to PAS 39: The Fair Value Option | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | ✓ | | |
| | Amendment to PAS 39: Eligible Hedged Items | ✓ | | |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting* *(effective January 1, 2014)* | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| ***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)*** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities** | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** | ✓ | | |
| **IFRIC 6** | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives** | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives** | ✓ | | |
| **IFRIC 10** | Interim Financial Reporting and Impairment | ✓ | | |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction | ✓ | | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners** | ✓ | | |
| **IFRIC 18** | Transfers of Assets from Customers** | ✓ | | |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments** | ✓ | | |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies* *(effective January 1, 2014)* | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| ***Philippine Interpretations - Standing Interpretations Committee (SIC)*** | | | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | ✓ | | |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders** | ✓ | | |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services** | ✓ | | |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

* These standards will be effective for periods subsequent to 2013 and are not early adopted by the Group.

** These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
Map Showing the Relationship Between the Company and its Related Entities
December 31, 2013



Legend:
A Subsidiary
B Associate
C Jointly controlled entity

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Summary of Application of SRO Proceeds**
**December 31, 2013**

| | | BASED ON IPO PROSPECTUS | | BASED ON ACTUAL |
|---|---|---|---|---|
| **SRO Proceeds** | P | 2,695,239,834 | P | 2,695,239,834 |
| **Less: SRO related expenses** | | 5,239,834 | | 5,239,834 |
| **Net proceeds** | | 2,690,000,000 | | 2,690,000,000 |
| **Less: Disbursements** | | | | |
| **Construction Site Development** | | 1,800,000,000 | | 1,872,825,309 |
| Pioneer Woodlands | | 800,000,000 | | 350,000,000 |
| San Lorenzo Place | | 700,000,000 | | 532,081,376 |
| The Rochester | | 300,000,000 | | 275,267,709 |
| Kasara | | - | | 128,304,666 |
| Sonoma | | - | | 70,000,000 |
| Little Baguio Terraces | | - | | 314,520,643 |
| South Science Park | | - | | 202,650,915 |
| **Landbanking** | | 890,000,000 | | 805,000,000 |
| **Total Disbursements** | | 2,690,000,000 | | 2,677,825,309 |
| **Remaining Balance of Proceeds, as at December 31, 2013** | | | P | 12,174,691 |

**Supplementary information on the Summary of Application of SRO Proceeds**

*The proceeds were subsequently reallocated and transferred to fund the urgent construction of other projects that have exceeded their respective allocations.*

# EMPIRE EAST LAND HOLDINGS, INC.
# INTERIM FINANCIAL STATEMENTS
# AS OF 31 MARCH 2014

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended **31 March 2014**

2. Commission Identification Number: **AS094-006430**

3. BIR Tax Identification No. **003-942-108**

4. **EMPIRE EAST LAND HOLDINGS, INC.**
   Exact name of issuer as specified in its charter

5. **Metro Manila**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code

7. **21st Floor, The World Centre**
   **330 Sen. Gil J. Puyat Avenue**
   **Makati City, Philippines 1227**
   Address of issuer's principal office

8. **(632) 867-8351 to 59**
   Issuer's telephone number, including area code

9. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common** | **14,676,199,167** |

10. Are any or all of the securities listed on a Stock Exchange?

    **Yes [X]**   **No [ ]**

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

    **The shares of common stock of the Company are listed on the Philippine Stock Exchange.**

11. Indicate by check mark whether the issuer:

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

    **Yes [X]**   No [ ]

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

**Yes [X]** No [ ]

## PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Interim financial statements are attached as Exhibits 1 to 6 hereof and incorporated herein by reference:

Exhibit 1 – Consolidated Statements of Financial Position as of December 31, 2013 and March 31, 2014
Exhibit 2 - Consolidated Statements of Comprehensive Income as of March 31, 2013 and March 31, 2014
Exhibit 3 - Comparative Statements of Changes in Equity as of March 31, 2013 and March 31, 2014
Exhibit 4 - Comparative Consolidated Statements of Cash Flows as of March 31, 2013 and March 31, 2014
Exhibit 5 - Notes to Financial Statements
Exhibit 6 - Aging of Accounts Receivable as of March 31, 2014

Item 2. Management's Discussion of Financial Condition and Results of Operations

Please refer to Exhibit 7 hereof.

Item 3. Schedule of Financial Soundness Indicators

Please refer to Exhibit 8 hereof.

## PART II – OTHER INFORMATION

The Company is not in possession of information which has not been previously reported in a report on SEC Form 17-C and with respect to which a report on SEC Form 17-C is required to be filed.

## SIGNATURE

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

**EMPIRE EAST LAND HOLDINGS, INC.**
Issuer

By:

**EVELYN G. CACHO**
Vice President for Finance (Principal Financial Officer) and Duly Authorized Officer
May 14, 2014

**EXHIBIT 1**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(In thousand pesos)**

| | Unaudited 31-Mar-14 | Audited 31-Dec-13 |
|---|---|---|
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | P 996,922 | P 504,471 |
| Trade and other receivables - net | 3,169,278 | 2,979,566 |
| Residential and condominium units for sale | 12,934,448 | 12,824,660 |
| Property development costs | 4,495,465 | 2,902,643 |
| Advances to related parties | 2,054,361 | 2,053,792 |
| Prepayments and other current assets | 866,370 | 760,206 |
| Total Current Assets | 24,516,844 | 22,025,338 |
| **NON-CURRENT ASSETS** | | |
| Trade and other receivables - net | 2,702,180 | 2,421,692 |
| Advances to landowners and joint ventures | 823,668 | 787,075 |
| Available-for-sale financial assets | 3,209,100 | 2,905,080 |
| Land held for future development | 2,582,345 | 4,088,300 |
| Investment in associates | 296,622 | 293,372 |
| Investment property - net | 181,351 | 185,553 |
| Property and equipment - net | 157,668 | 160,370 |
| Other non-current assets | 84,357 | 84,459 |
| Total Non-current Assets | 10,037,291 | 10,925,901 |
| **TOTAL ASSETS** | P 34,554,135 | P 32,951,239 |

| | | Unaudited 31-Mar-14 | | Audited 31-Dec-13 |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Interest-bearing loans and borrowings | **P** | **66,341** | P | 71,200 |
| Trade and other payables | | **798,612** | | 438,133 |
| Income tax payable | | **7,377** | | 7,267 |
| Deferred gross profit on real estate sales | | **64,456** | | 49,704 |
| Customers' deposits | | **3,634,409** | | 2,957,369 |
| Advances from related parties | | **1,715,201** | | 1,643,354 |
| Reserve for property development | | **129,443** | | 132,642 |
| Other current liabilities | | **322,174** | | 305,700 |
| Total Current Liabilities | | **6,738,013** | | 5,605,369 |
| **NON-CURRENT LIABILITIES** | | | | |
| Interest-bearing loans and borrowings | | **131,894** | | 148,531 |
| Reserve for property development | | **901,428** | | 815,739 |
| Deferred tax liabilities | | **1,211,683** | | 1,177,480 |
| Deferred gross profit on real estate sales | | **113,506** | | 125,286 |
| Retirement benefit obligation | | **289,405** | | 288,880 |
| Total Non-current Liabilities | | **2,647,916** | | 2,555,917 |
| Total Liabilities | | **9,385,929** | | 8,161,285 |
| **EQUITY** | | | | |
| Equity attributable to parent company's shareholders | | **24,554,522** | | 24,176,546 |
| Non-controlling interest | | **613,684** | | 613,408 |
| Total Equity | | **25,168,206** | | 24,789,954 |
| **TOTAL LIABILITIES AND EQUITY** | **P** | **34,554,135** | P | 32,951,239 |

EXHIBIT 2

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In Thousands)

| | Unaudited Jan-March 2014 | Unaudited Jan-March 2013 |
|---|---|---|
| **REVENUES** | | |
| Real estate sales | P 670,555 | P 557,089 |
| Realized gross profit on prior years' sales | 25,082 | 40,613 |
| Finance Income | 67,772 | 76,212 |
| Equity share in net earnings of an associate | 3,250 | 25,979 |
| Commissions & other income | 98,328 | 89,703 |
| | 864,987 | 789,596 |
| **COST & EXPENSES** | | |
| Cost of real estate sales | 447,280 | 353,424 |
| Deferred gross profit on current year's sales | 28,054 | 48,461 |
| Finance costs | 26,898 | 38,715 |
| Operating expenses | 253,911 | 282,283 |
| Tax expense | 34,612 | 16,388 |
| | 790,755 | 739,271 |
| **NET PROFIT** | 74,232 | 50,325 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Fair value gains (losses) on available-for-sale financial assets | 304,020 | 531,814 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | 378,252 | 582,139 |
| **Net profit attributable to:** | | |
| Parent company's shareholders | 73,956 | 49,995 |
| Minority interes | 276 | 330 |
| | 74,232 | 50,325 |
| **Total comprehensive income (loss) attributable to:** | | |
| Parent company's shareholders | 377,976 | 581,809 |
| Non-controlling interest | 276 | 330 |
| | 378,252 | 582,139 |
| **Earnings Per Share** | | |
| Basic | 0.0050 | 0.0037 |
| Diluted | 0.0050 | 0.0037 |

# EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
## COMPARATIVE STATEMENTS OF CHANGES IN EQUITY

| | | Unaudited 31-Mar-2014 ( In Thousands) | | Unaudited (Restated) 31-Mar-2013 |
|---|---|---|---|---|
| **CAPITAL STOCK** | | **P 14,803,455** | | P 13,603,455 |
| **ADDITIONAL PAID-IN CAPITAL** | | **4,307,888** | | 4,247,888 |
| **TREASURY SHARES** | | **(102,107)** | | (102,107) |
| **REVALUATION RESERVES** | | | | |
| Balance at beginning of year | **1,980,516** | | 1,030,386 | |
| Net Unrealized fair value gains (losses) on available-for-sale financial assets | **304,020** | | 531,814 | |
| Balance at end of period | | **2,284,536** | | 1,562,200 |
| **RETAINED EARNINGS** | | **3,260,750** | | 2,937,321 |
| **MINORITY INTEREST** | | **613,684** | | 612,946 |
| **TOTAL EQUITY** | | **P 25,168,206** | | P 22,861,702 |

**EXHIBIT 4**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousand pesos)**

| | | Unaudited 31-Mar-14 | | Unaudited (Restated) 31-Mar-13 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before tax | P | 108,844 | P | 66,712 |
| Adjustments for: | | | | |
| Depreciation and amortization | | 9,438 | | 9,066 |
| Finance costs | | 26,898 | | 38,715 |
| Finance income | | (67,772) | | (76,212) |
| Equity in net earnings of associates | | (3,250) | | - |
| Operating income before working capital changes | | 74,158 | | 38,281 |
| Net Changes in Operating Assets and Liabilities | | | | |
| Increase in current and non-current assets | | (781,400) | | (872,648) |
| (Decrease) Increase in current and other non-current liabilities | | 1,106,463 | | (322,251) |
| Increase in reserve for property development | | 82,490 | | 125,296 |
| Cash used in operations | | 481,711 | | (1,031,322) |
| Interest received | | 38,545 | | 32,232 |
| Cash paid for income taxes | | (30) | | (7,997) |
| Net Cash Used in Operating Activities | | 520,226 | | (1,007,087) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | (2,255) | | 4,835 |
| **CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES** | | (25,520) | | (102,612) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | 492,451 | | (1,104,864) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | | 504,471 | | 3,033,223 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | P | 996,922 | P | 1,928,359 |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
*(A Subsidiary of Megaworld Corporation)*
**NOTES TO INTERIM FINANCIAL STATEMENTS**
**FOR THE 3 MONTHS ENDED MARCH 31, 2014, AND 2013**
**(UNAUDITED)**
*(Amounts in Philippine Pesos)*

## 1. CORPORATE INFORMATION

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

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

The Company holds ownership interests in the following entities:

| Subsidiaries/ Associates | Explanatory Notes | Percentage of Ownership March 2014 | 2013 |
|---|---|---|---|
| Subsidiaries: | | | |
| Eastwood Property Holdings, Inc. (EPHI) | (a) | 100% | 100% |
| Valle Verde Properties, Inc. (VVPI) | (b) | 100% | 100% |
| Sherman Oak Holdings, Inc. (SOHI) | (c) | 100% | 100% |
| Empire East Communities, Inc. (EECI) | (d) | 100% | 100% |
| Laguna BelAir Science School, Inc. (LBASSI) | (e) | 73% | 73% |
| Sonoma Premier Land, Inc. (SPLI) | (f) | 60% | 60% |
| Associates: | | | |
| Gilmore Property Marketing Associate, Inc. (GPMAI) | (g) | 47% | 47% |

Explanatory Notes:

(a) Subsidiary incorporated in 1996 and serves as the marketing arm of the Company for the latter's projects, as well as those of other related parties.

(b) Subsidiary incorporated in 2006; additional shares were acquired in November 2008 through assignment of shares from a third party.

(c) Subsidiary incorporated in 2007; shares acquired through assignment of shares from Yorkshire Holdings Inc., a related party, in January 2008.

(d) Subsidiary incorporated in 2008 to primarily engage in the purchase, development, sale and lease of real properties but is currently engaged in the marketing of real estate properties.

(e) Subsidiary incorporated in 1996 to primarily engage in operating a school for primary and secondary education.

(f) Subsidiary incorporated in 2007 as a holding entity to primarily engage in the development and marketing of all kinds of real estate. Additional shares were acquired from First Centro, Inc. in March and June 2008.

(g) Entity incorporated in 1996. In 2012, the entity was deconsolidated and treated as an associate of the Company.

The place of incorporation, which is similar with the place of operation of the Company's subsidiaries and affiliates, are located at 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City except EPHI, LBASI and SPI. The place of incorporation as well as the principal place of business of EPHI, LBASI and SPI are summarized below.

*(a)* EPHI – 28th Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City
*(b)* LBASSI – Brgy. Don Jose, Sta. Rosa, Laguna

In 2013, the Company sold its 33% ownership interest in SPI to Megaworld. A total of 315,000,008 shares were sold for a total consideration of P471.2 million. As a result of the sale, SPI ceased to be an associate of the Company.

In 2012, GPMAI issued additional 5,000,000 shares of stock at P1 par value which were purchased by a third party. As a result, the percentage of ownership of the Company over GPMAI was reduced from 52% to 47%.

Starting June 2011, the Company became a subsidiary of Megaworld. In June 2013, the Company issued additional 1.2 billion common shares to its parent, Megaworld for a price of P1.26 billion.

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

The registered office of the Company is located at the 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City. Megaworld's registered office is on the 28th Floor of the same building. On the other hand, AGI's registered office is located at the 7th Floor 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriquez Jr. Avenue, Bagumbayan, Quezon City. These entities' registered offices are also their respective principal places of business.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### *2.1 Basis of Preparation of Consolidated Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (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 expenses in a single statement of comprehensive income.

*(c) Functional and Presentation Currency*

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

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

*(a) Effective in 2014 that are Relevant to the Company*

There are new PFRS, amendments, annual improvements and interpretations 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 financial statements:

(i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from 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 provided characteristics of a gross settlement system 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 its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.

(iv) PFRS 9, *Financial Instruments: Classification and Measurement*. 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 in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities.

The Group does not expect to implement and adopt PFRS 9 until its effective date. 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.

(v) Philippine 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 Securities and Exchange Commission 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.

(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 amendments 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)*

*(a)* PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

*(b)* PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that 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.

(c) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

(d) 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)*

(a) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

(b) 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 definitions of financial assets or financial liabilities as defined in PAS 32.

(c) 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 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.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

### *3.1 Critical Judgments in Applying Accounting Policies*

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

*(a) Impairment of AFS Financial Assets*

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

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

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely 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 Group's main line of business while land held for future development are properties intended solely for future development.

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

*(c) Distinction between Operating and Finance Leases*

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

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

*(d) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies.

### *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 financial year:

*(a) Determining Net Realizable Value of Residential and Condominium Units for Sale, Property Development Costs and Land Held for Future Development*

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

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

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

*(c) Impairment of Trade and Other Receivables and Advances to Landowners and Joint Ventures*

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 counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience.

*(d) Fair Value Measurements of Financial Instruments*

The Group carries certain financial assets at fair value, which are classified as Level 1 fair values as these investments are traded in the stock market. As such, no significant accounting estimates and judgment was made on its FVTPL and AFS financial assets.

*(e) 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.

*(f) Impairment of Non-financial Assets*

The Group's interest in its Non-financial Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Though management believes that the assumptions used in the estimation of fair values 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.

*(g) Valuation of Post-Employment Defined Benefit*

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

*(h) Revenue Recognition Based on 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 to date as a proportion of the total budgeted cost of the project.

*(i) Basis for Revenue Recognition Benchmark*

The Group recognizes its revenue in full when a certain percentage of the net contract price is received. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history of customers and number of back out sales in prior years. A buyer's interest in the property is considered to have vested when a defined percentage of the net contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

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

Investment Property is measured using the cost model. 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 investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting periods.

## 4. SEGMENT REPORTING

### *4.1 Business Segments*

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

### *4.2 Segment Assets and Liabilities*

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

### *4.3 Intersegment Transactions*

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

### *4.4 Analysis of Segment Information*

The following tables present the revenue and profit information regarding industry segments for the three months ended March 31, 2014 and 2013 and certain assets and liabilities information regarding industry segments as of March 31, 2014 and December 31, 2013.

| | High Rise Projects | | Horizontal Projects | | Total | |
|---|---|---|---|---|---|---|
| | **March 31, 2014** | March 31, 2013 | **March 31, 2014** | March 31, 2013 | **March 31, 2014** | March 31, 2013 |
| **REVENUES** | | | | | | |
| Real estate sales | **P 589,113,311** | P 488,470,131 | **P 81,441,468** | P 68,618,952 | **P 670,554,779** | P 557,089,083 |
| Realized gross profit on prior years' sale | **25,082,388** | 40,613,298 | **-** | - | **25,082,388** | 40,613,298 |
| Finance income | **37,090,147** | 32,418,716 | **1,454,416** | ( 186,914) | **38,544,563** | 32,231,802 |
| **Commission &** Other income | **50,022,119** | 24,752,810 | **8,870,447** | 2,089,851 | **58,892,566** | 26,842,661 |
| Total revenues | **701,307,965** | 586,254,955 | **91,766,331** | 70,521,889 | **793,074,296** | 656,776,844 |
| **COSTS AND OTHER OPERATING EXPENSES** | | | | | | |
| Cost of real estate sales | **405,313,644** | 316,070,297 | **41,966,804** | 37,354,187 | **447,280,448** | 353,424,484 |
| Deferred gross profit on current year's sales | **23,871,916** | 37,063,990 | **4,182,341** | 11,397,193 | **28,054,257** | 48,461,183 |
| Operating expenses | **83,170,475** | 104,661,866 | **20,960,277** | 27,827,933 | **104,130,752** | 132,489,799 |
| Cost and other operating expenses excluding depreciation and amortization | **512,356,035** | 457,796,153 | **67,109,422** | 76,579,313 | **579,465,457** | 534,376,466 |
| Depreciation and amortization | **828,665** | 907,742 | **3,494,791** | 3,523,893 | **4,323,456** | 4,431,635 |
| | **513,184,700** | 458,703,895 | **70,604,213** | 80,103,206 | **583,788,913** | 538,807,101 |
| **SEGMENT OPERATING PROFIT (LOSS)** | **P 188,123,265** | P 127,551,060 | **P 21,162,118** | (P 9,581,317) | **P 209,285,383** | P 117,969,743 |

| | High Rise Projects | | Horizontal Projects | | Total | |
|---|---|---|---|---|---|---|
| | **March 31, 2014** | December 31, 2013 | **March 31, 2014** | December 31, 2013 | **March 31, 2014** | December 31, 2013 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | **P 14,490,357,798** | P 14,074,551,368 | **P 5,682,392,561** | P 4,990,407,147 | **P 20,172,750,359** | P 19,064,958,515 |
| Segment liabilities | **875,519,223** | 798,100,218 | **333,313,785** | 325,270,520 | **1,208,833,008** | 1,123,370,738 |

### *4.5 Reconciliations*

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

| | Mar. 31, 2014 | Mar. 31, 2013 |
|---|---|---|
| **Revenues** | | |
| Total segment revenues | **P 793,074,296** | P 656,776,844 |
| Other unallocated revenues | **71,912,529** | 132,819,258 |
| Revenues as reported in profit or loss | **P 864,986,825** | P 789,596,102 |
| **Profit or loss** | | |
| Segment operating profit | **P 209,285,383** | P 117,969,743 |
| Other unallocated income | **71,912,529** | 132,819,258 |
| Other unallocated expense | **( 172,353,771)** | ( 184,076,570) |
| Profit before tax as reported in profit or loss | **P 108,844,141** | P 66,712,431 |

| | Mar. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Assets** | | |
| Segment assets | **P 20,172,750,359** | P 19,064,958,515 |
| Unallocated assets | **14,381,384,594** | 13,886,280,885 |
| Total assets as reported in the consolidated statements of financial position | **P 34,554,134,953** | P 32,951,239,400 |
| **Liabilities** | | |
| Segment liabilities | **P 1,208,833,008** | P 1,123,370,739 |
| Unallocated liabilities | **8,177,095,872** | 7,037,914,738 |
| Total liabilities as reported in the consolidated statements of financial position | **P 9,385,928,880** | P 8,161,285,477 |

## 5. STOCK RIGHT

On April 24, 2012, the Company's BOD approved the offer for subscription of 2,695,239,833 new shares (the "right shares") by way of a pre-emptive offer (the "rights offer") to holders of its common shares at the proportion of one new share for every four existing common shares, at the offer/exercise price equivalent to their par value of P1 per share. This was approved by SEC on August 30, 2012.

Also, on April 24, 2012, the BOD approved the increase in the Company's authorized capital stock from P23.5 billion divided into 21.5 billion common and 2 billion preferred shares both with par value of P1 each, to P33.5 billion divided into 31.5 billion common and 2 billion preferred shares both with par value of P1 per share. The application for the increase in authorized capital stock was approved by the SEC on October 17, 2012.

As of March 31, 2014, the Company's number of shares issued and outstanding totaled 14,803,455,238 with total Treasury Stock of 127,256,071.

## 6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profits attributable to parent company's shareholders divided by the weighted average number of shares in issue during the period.

Earnings per share amounts were computed as follows:

| | **March 31, 2014** | March 31, 2013 |
|---|---|---|
| Weighted average number of shares | **14,676,199,167** | 13,476,199,167 |
| Income available to parent company's Shareholders | **P 73,956,120** | P 49,994,631 |
| Basic | **P 0.0050** | P 0.0037 |
| Diluted | **P 0.0050** | P 0.0037 |

## 7. COMMITMENTS AND REAL ESTATE PROPERTIES

There were no material contingencies and any other events or transactions that have material impact on the current interim period. There were no issuances, repurchases, and repayments of debt on the current interim period.

## 8. SEASONAL FLUCTUATIONS

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the group.

## 9. ASSESSMENT OF FINANCIAL RISKS

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

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 below.

### *9.1) Foreign Currency Sensitivity*

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

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are closely monitored.

The Group's U.S.-dollar denominated financial assets, translated into Philippine pesos amounted to P75.6 million as of March 31, 2014.

At March 31, 2014, if the peso had strengthened by 2% against the U.S. dollar with all other variables held constant, income before tax for the year would have been P1.8 million lower, mainly as a result of foreign exchange loss on translation of U.S. dollar-denominated cash and cash equivalents.

On the other hand, if the peso had been weaker by the same percentage, with all other variables held constant, income before tax would have been higher by the same amount.

The 2% movement in the value of peso against U.S. dollar was estimated based on the market volatility in exchange rates. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the reporting period.

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

### *9.2) Interest Rate Sensitivity*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises only from cash and cash equivalents, which are subject to variable interest rates. Financial assets and liabilities at variable rates expose the group to cash flow interest rate risk. All other financial assets and liabilities have fixed rates.

On March 31, 2014, if general interest rates on dollar and peso-denominated financial assets had been higher by 0.23%, with all other variables held constant, income before tax for the year would have been P2.5 million higher, mainly as a result of higher interest income on floating rate deposits.

The movements in interest rates used in the sensitivity analysis are considered reasonably possible and are based on observation of interest rate fluctuations for the past six months using a 95%-confidence level. The calculations are based on the Group's financial instruments held at each reporting period, with effect estimated from the beginning of the year.

### 9.3) *Credit Risk*

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of financial position, as summarized below.

| | **As of Mar. 31,2014** | As of Dec. 31, 2013 |
|---|---|---|
| Cash and cash equivalents | **P 996,922,090** | P 504,471,331 |
| Trade and other receivables - net | **4,833,807,203** | 4,535,668,171 |
| Advances to related parties | **2,054,360,781** | 2,053,791,774 |
| | **P 7,885,090,074** | P 7,093,931,276 |

The credit risk for liquid funds is considered negligible, since the counter parties are reputable banks with high quality external credit ratings. In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counter party or any group of counter parties having similar characteristics.

The Group continuously monitors defaults of customers and other counter parties, 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 counter parties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

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

### 9.4) *Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-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 are 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 at March 31, 2014, the Group's financial liabilities have contractual maturities which are presented below:

| | Within 6 Months | 1 to 5 Years |
|---|---|---|
| Interest-bearing loans and borrowings | P 66,341,090 | P 131,894,170 |
| Trade and other payables | 667,241,957 | - |
| Advances from related parties | 1,715,201,037 | - |
| Other current liabilities | 315,058,488 | - |
| | P 2,763,842,572 | P 131,894,170 |

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows:

| | Within 6 Months | 1 to 5 Years |
|---|---|---|
| Interest-bearing loans and borrowings | P 46,718,976 | P 217,927,707 |
| Trade and other payables | 377,303,492 | - |
| Advances from related parties | 1,643,353,984 | - |
| Other current liabilities | 287,912,670 | - |
| | P 2,355,289,122 | P 217,927,707 |

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

### 9.5) *Other Market Price Risk*

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

At March 31, 2014, if the quoted stock price for the securities had decreased by 3.2% with all other variables held constant, equity would have been lower by about P101.3 million. The 3.2% estimated change in quoted market price is computed based on volatility of local index for holdings first listed at Philippine Stock Exchange.

On the other hand, if the quoted market price for these securities had increased by the same amount, with all other variables held constant, equity for the year would have been higher by the same figure.

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

## 10. FINANCIAL INSTRUMENTS EVALUATION

Financial assets include cash and financial instruments. The Group classifies its financial assets, other than hedging instruments, into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale 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. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

*Cash and cash equivalents* are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Regular purchase and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the statements of comprehensive income.

The foregoing categories of financial instruments are more fully described below.

### *10.1) Financial Assets at Fair Value through Profit or Loss*

This category includes financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as 'held for trading' unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the reporting period.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally are designated as financial assets at fair value through profit or loss may not be subsequently be reclassified.

### *10.2) 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 any impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Group 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 cash flows.

The Group's loans and receivables are presented as Trade and other receivables, Advances to landowners and joint ventures, and Advances to related parties in the statements of financial position.

*10.3) Held-to-maturity Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. They are included in non-current assets in the statements of financial position, except those maturing within 12 months of the reporting period.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

*10.4) Available-for-sale Financial Assets*

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

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the statements of comprehensive income when they are sold or when the investment is impaired.

In the case of impairment, any loss previously recognized in equity is transferred to the statements of comprehensive income. Impairment losses recognized in the statements of comprehensive income on equity securities are not reversed through the statements to comprehensive income. Losses recognized in prior year statements of comprehensive income resulting from the impairment of debt instruments are reversed through the statements of comprehensive income.

For investment that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices in the stock exchange 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 and other cash flows resulting from holding financial assets are recognized in consolidated profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

De-recognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

The Group has no investment in foreign securities as of reporting period. The markets of the Group's Available-for-sale financial assets are active.

**EXHIBIT 6**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

## RESULTS OF OPERATIONS

Review of March 31, 2014 versus March 31, 2013

During the three-month period, the consolidated net profit amounted to P74.2 million, 48% higher than the previous year's net income of P50.3 million. Consolidated revenues, composed of real estate sales, realized gross profit, finance income, earnings of associates, commissions and other revenues posted an increase of 10% from P789.6 million to P865.0 million.

Real Estate Sales

The Group registered Real Estate Sales of P670.6 million for three months ended March 31, 2014 compared with P557.1 million in 2013. The sales generated were derived from various projects including, San Lorenzo Place, Pioneer Woodlands, The Sonoma, The Rochester Gardens, The Cambridge Village, California Gardens Square, Kasara Urban Resort Residences and Laguna Bel Air Projects.

The Cost of Real Estate Sales amounting to P447.3 million in 2014 and P353.4 million in 2013, as a percentage of Real Estate Sales, was 67% and 63%, respectively. The change was primarily due to the different composition of products sold for each year.

Gross Profit was P223.3 million during the three months of 2014 and P203.7 million in 2013, or 33% and 37% of Real Estate Sales, respectively. The gross profit margin varies depending on the product mix and the competitiveness of prices of each product. Realized Gross Profit amounting to P220.3 million in 2014 and P195.8 million in 2013, represents 33% and 35% of Real Estate Sales, respectively.

Other Revenues

The finance income amounting to P67.8 million and P76.2 million in 2014 and 2013 respectively, were derived mostly from in-house financing and accounts for 8% and 10% of total revenues. Additional sources of revenue were commissions of a subsidiary, rentals of investment properties and those obtained from other sources. Commission and other income totaling P98.3 million in 2014 and P89.7 million in 2013, represents 11% of total revenues in 2014 and 2013.

Operating Expenses

Operating Expenses posted a decrease from P282.3 million in 2013 to P253.9 million in 2014. Other charges/expenses include Finance Cost of P26.9 million and P38.7 million in 2014 and 2013, respectively.

## FINANCIAL CONDITION

Review of March 31, 2014 versus December 31, 2013

Total resources of the Group as of March 31, 2014 and December 31, 2013 amounted to P34.6 billion and P33.0 billion respectively. Cash and Cash Equivalents increased from P504.5 million to P996.9 million. The Group remained liquid with Total Current Assets of P24.5 billion in 2014 and P22.0 billion in 2013, which accounted for 71% and 67% of the Total Assets in 2014 and 2013 respectively, while its Total Current Liabilities amounted to P6.7 billion in March 31, 2014 as compared with P5.6 billion in December 31, 2013.

Equity increased from P24.8 billion in the previous year to P25.2 billion as of March 31, 2014 due to revaluation of equity investments and net income for the 3-month period.

For the three months of 2014, the Group sourced its major cash requirements from internally generated funds, and partly from borrowings.

For 2013, the Group sourced its major cash requirements from internally generated funds, subscription proceeds, disposal and sale of investment in associate and partly from borrowings.

The Group utilized its funds for construction and development of projects, purchase of properties, loan repayments, settlement of various payables and other operating expenses.

## TOP FIVE (5) KEY PERFORMANCE INDICATORS

For the three-month period of 2014, the following are top key performance indicators of the Group:

1) **Increase in Real Estate Sales**

   The Group's marketing concepts and sales strategies, project location, flexible payment scheme and aggressive selling have contributed to the increase in sales. The Group's new projects are connected to mass transit system and are conveniently located in business districts of Metro Manila

2) **Increase in Reservation Sales**

Effective marketing concepts and strategies, aggressive selling and prime location of projects contributed to the increase in reservation sales and collections.

3) **Ability to repay loan obligations**

The loan obligations were promptly settled. The Group maintains a good credit standing with creditor banks and has considerable standby credit facilities, which can be utilized for urgent capital requirements.

4) **Continuous development of projects**

The Group aggressively undertakes construction and development activities and has been exerting efforts to deliver its projects within the commitment timetable.

5) **Landbanking**

The Group has been continuously acquiring interests in properties through either outright acquisitions or joint venture arrangements with landowners. It intends to have sufficient properties for development within the next 5 to 7 years.

Material Changes in the 2014 Interim Financial Statements
(Increase or decrease of 5% or more versus December 31, 2013)

Statements of Financial Position

- 98% increase in Cash and cash equivalents
  Mainly due to increase in reservation sales and collections from various projects

- 9% increase in Trade and other receivables
  Due to increase in real estate sales

- 55% increase in Property development cost
  Due to ongoing construction and development activities

- 14% increase in Prepayments and other current assets
  Mainly due to increase in prepaid taxes related to transfer of titles

- 5% increase in Advances to landowners and joint venture
  Pertains to project-related advances

- 37% decrease in Land held for future development
  Mainly due to reclassification of land to property development cost

- 10% increase in Available-for-sale financial assets
  Primarily due to increase in fair market value of investment in securities held by a subsidiary

- 10% decrease in Interest-bearing loans and borrowings
  Due to payment of loans

- 82% increase in Trade and other payables
  Various payables to contractors and suppliers due to increasing construction activities

- 23% increase in Customers' deposits
  Mainly due to increase in reservation sales and collection from various projects

- 9% increase in Reserve for property development
  Pertains to estimated cost to complete the construction/development of sold units

- 5% increase in Other current liabilities
  Due to increase in retention payable to suppliers and contractors

Statements of Income

- 20% increase in Real estate sales
  Due to aggressive selling of projects

- 38% decrease in Realized gross profit on prior years' sale
  Due to construction accomplishment of certain projects

- 11% decrease in Finance income
  Primarily due to varying payment terms of accounts under in-house financing

- 87% decrease in Equity in net earnings of associates
  Primarily due to sale of the Group's stake in associate

- 10% increase in Commission and other income
  Mainly due to increase in revenues derived from other related sources

- 27% increase in Cost of real estate sales
  Mainly attributed to increase in sales

- 42% decrease in Deferred gross profit on current year's sales
  Mainly due to construction accomplishments of ongoing projects

- 31% decrease in Finance costs
  Mainly due to repayments of loans

- 10% decrease in Operating expenses
  Due to decrease in marketing and administrative expenses

- 111% increase in Tax expense
  Mainly due to increase in taxable income

For the year 2014, the projected capital expenditures (construction and development) of roughly P4.0 billion is expected to be funded by collections, borrowings and equity financing.

Fluctuations in foreign exchange rate had no adverse effect on the Group's financial conditions since the Group has very minimal importations of construction-related materials and have no foreign denominated loans.

There are no other material changes in the Group's financial position and condition (5% or more) that will warrant a more detailed discussion. Likewise, there are no material events and uncertainties known to the management that would have material impact on reported financial information and normal operations of the Group.

The nature of all revenues and expenses disclosed in the statements of comprehensive income are business related transactions and arose from the Group's continuing operations. Also, no prior period adjustment was made during any period covered by the statements of financial position.

There are no material off-statements of financial condition transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

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

The Group is aggressively marketing its products specially the new projects. It continuously offers competitive prices, more lenient payment schemes under in-house financing and has strong tie-ups with reputable banks for the financing requirements of its buyers.

Exhibit 7

EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
As of March 31, 2014
Amounts in thousands

1) Aging of Accounts Receivable

| Type of Receivables | Total | Current Not Yet Due | Not More Than 3 Months | Not More Than 6 Months | Not More Than 12 Months | More than 12 Months | Past due accounts & Items in Litigation |
|---|---|---|---|---|---|---|---|
| a) Trade Receivables | 3,581,204 | 3,174,632 | 65,411 | 109,561 | 172,278 | 59,323 | - |
| b) Other Receivables | 2,290,253 | 2,290,253 | - | - | - | - | - |
| Net Receivables | 5,871,457 | | | | | | |

2) Accounts Receivable Description

| Type of Receivables | Nature/Description | Collection Period |
|---|---|---|
| a) Trade Receivables | Sale of residential units/lots | maximum of 10 years |
| b) Other Receivables | Advances to contractors/suppliers | 1 to 2 years |

3) Normal Operating Cycle: 3 to 15 years

**EXHIBIT 8**

## EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
### SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

| | 31-Mar-2014 | 31-Dec-2013 |
|---|---|---|
| Current ratio | **3.64** | 3.93 |
| Quick ratio | **0.62** | 0.62 |
| Debt-to-equity ratio | **0.37** | 0.33 |
| Interest-bearing debt to total capitalization ratio | **0.01** | 0.01 |
| Asset-to-equity ratio | **1.37** | 1.33 |
| | | 31-Mar-2013 |
| Interest rate coverage ratio | **505%** | 272% |
| Net profit margin | **8.58%** | 6.37% |
| Return on assets | **0.22%** | 0.17% |
| Return on equity/investment | **0.29%** | 0.22% |
| Return on equity/investment of owners | **0.30%** | 0.22% |

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.
Current ratio - computed as current assets divided by current liabilities
Quick ratio - computed as cash, marketable securities, accounts receivable divided by current liabilitites

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term-debt.
Debt-to-equity ratio-computed as total liabilities divided by total equity.
Interest-bearing debt to total capitalization ratio-computed as interest-bearing debt divided by interest-bearing debt plus stockholder's equity attributable to controlling interest.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency.
It shows how much of the assets are owned by the company. It is computed as total assets divided by total equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments.
It is computed as earnings before income tax and interest expense ("EBIT") divided by interest.

PROFITABILITY RATIOS
Net profit margin - computed as net profit divided by total revenues
Return on assets - net profit divided by average total assets
Return on investment - net profit divided by total stockholders' equity
Return on investment of equity owners - net profit attributable to owners of the parent divided by equity attributable to owners of the parent company

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-1S
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE



1. Check the appropriate box:

   **[ ] Preliminary Information Statement**
   **[X ] Definitive Information Statement**

2. Name of Registrant as specified in its charter **EMPIRE EAST LAND HOLDINGS, INC.**

3. **Metro Manila**
   Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number **AS094-006430**

5. BIR Tax Identification Code **003-942-108**

6. **21st Floor The World Centre**
   **330 Sen. Gil Puyat Avenue**
   **Makati City, Philippines** **1227**
   Address of principal office Postal Code

7. Registrant's telephone number, including area code **(632) 867-8351 to 59**

8 **10 June 2014, 9:00 a.m. Grand Ballroom**
   **Eastwood Richmonde Hotel**
   **17 Orchard Road, Eastwood City**
   **Bagumbayan, Quezon City, Philippines**
   Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders **20 May 2014**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common** | **14,676,199,167** |

11. Are any or all of registrant's securities listed on the Philippine Stock Exchange?

   **Yes [X]** **No [ ]**

   The shares of common stock of the Company are listed on the Philippine Stock Exchange.

# Empire East

21st Floor The World Centre, 330 Sen. Gil Puyat Avenue, Makati City

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

TO ALL STOCKHOLDERS
Empire East Land Holdings, Inc.

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Empire East Land Holdings, Inc. will be held on 10 June 2014, 9:00 a.m., at the Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City, Metro Manila, Philippines, with this agenda:

1. Call to Order
2. Proof of Notice and Determination of Quorum
3. Approval of Minutes of the Previous Annual Meeting
4. Annual Report of Management
5. Appointment of External Auditors
6. Amendment of the Third Article of the Articles of Incorporation to reflect the complete principal office address of the Corporation in compliance with SEC Memorandum Circular No. 6, Series of 2014
7. Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management
8. Election of Directors
9. Other Matters
10. Adjournment

Stockholders of record as of 2 May 2014 will be entitled to notice of, and to vote at, the Annual Meeting.

We are not soliciting your proxy. However, if you would like to appoint proxies to represent you in the Annual Meeting, you may submit your proxy instruments on or before 1 June 2014 to the office of the Corporate Secretary, 28/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City. Validation of proxies will be held on 1 June 2014, 9:00 a.m. Sample proxy forms are enclosed for your convenience. For questions, please call Ms. Rhodora Victorino-Edangalino at Tel. No. +632 8678826 loc. 363.

Makati City, Philippines, May 12, 2014.

**DENNIS E. EDAÑO**
Corporate Secretary

**PROXY**
**EMPIRE EAST LAND HOLDINGS, INC.**
**2014 STOCKHOLDERS' MEETING**

I/WE hereby name and appoint, ______________________________________, or in his absence, the Chairman of the meeting, as my/our proxy at the annual stockholders' meeting of EMPIRE EAST LAND HOLDINGS, INC. ("Empire East") to be held on 10 June 2014 at the Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City, Metro Manila, Philippines, and/or at any postponement or adjournment thereof, and/or any annual stockholders' meeting of Empire East, which appointment shall not exceed five (5) years from date hereof.

In particular, I hereby direct my said proxy to vote all my shares on the agenda items set forth below as I have expressly indicated by marking the same with an "X".

| **Items No.** | **Subject** | **Action** | | |
|---|---|---|---|---|
| | | **For** | **Against** | **Abstain** |
| 3 | Approval of Minutes of the Annual Meeting held on June 13, 2012 | | | |
| 5 | Appointment of External Auditors | | | |
| 6 | Amendment of the Third Article of the Articles of Incorporation to reflect the complete principal office address of the Corporation in compliance with SEC Memorandum Circular No. 6, Series of 2014 | | | |
| 7 | Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management | | | |
| 8 | Election of Directors | | | |
| | a. Andrew L. Tan | | | |
| | b. Katherine L. Tan | | | |
| | c. Anthony Charlemagne C. Yu | | | |
| | d. Enrique Santos L. Sy | | | |
| | e. Alejo L. Villanueva, Jr. | | | |
| | f. Gerardo C. Garcia | | | |
| | g. Evelyn G. Cacho | | | |
| **FULL DISCRETION** | | | | |

______________________________ ______________________________
PRINTED NAME OF STOCKHOLDER AUTHORIZED SIGNATORY

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE 1 June 2014.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

THIS PROXY DOES NOT NEED TO BE NOTARIZED.

(Partnerships, Corporations and Associations must attach certified resolutions designating their proxies/representatives and authorized signatories)

## INFORMATION STATEMENT

## GENERAL INFORMATION

### Date, Time and Place of Meeting of Security Holders

The annual meeting of stockholders of the Company will be held on 10 June 2014, 9:00 a.m., at the Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City, Metro Manila, Philippines.

The Company's complete mailing address is at 21/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, Philippines.

Copies of this information statement will be sent on or before 20 May 2014 to all stockholders on record as of 02 May 2014.

The Company is not soliciting proxies. We are not asking you for a proxy. Neither are you required to send us a proxy.

### Dissenters' Right of Appraisal

There is no proposed corporate action or matter that will grant appraisal rights pursuant to the Corporation Code of the Philippines to dissenting stockholders.

Any stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in the following instances: 1) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; 2) in case the corporation decides to invest its funds in another corporation or business or for any purpose outside of the primary purpose for which it was organized; (3) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; and 4) in case of merger or consolidation.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the Company within thirty (30) days after the date on which the vote was taken, for payment of the fair value of his shares. **A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.** Failure to make the demand within the 30-day period shall be deemed a waiver of the appraisal right. From the time of the demand until either the abandonment of the corporate action in question or the purchase of the dissenting shares by the Company, all rights accruing to the dissenting shares shall be suspended, except the stockholder's right to receive payment of the fair value thereof. If the proposed corporate action is implemented or effected, the Company shall pay to such stockholder, upon surrender of the stock certificate(s) representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If the fair value is not determined, within sixty (60) days from the date the corporate action was approved by the stockholders, it will be determined by three (3) disinterested persons (one chosen by the Company, another chosen by the dissenting stockholder and the third to be chosen jointly by the Company and the stockholder). The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. Upon payment by the Company of the awarded price, the dissenting stockholder shall forthwith transfer his shares to the Company.

No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings.

### Interest of Certain Persons in or Opposition to Matters to be Acted Upon

No director or officer of the Company, or any nominee for election as a director of the Company, or any associate thereof, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.

No director of the Company has informed it in writing that he intends to oppose any action to be taken by the Company at the annual meeting of stockholders.

## CONTROL AND COMPENSATION INFORMATION

### Voting Securities and Principal Holders Thereof

Number of Shares Outstanding

As of 31 March 2014, the Company had 14,676,199,167 outstanding shares of common stock. Each common share shall be entitled to one (1) vote.

Record Date of Meeting

All owners on record of the Company's common shares as of 02 May 2014 will be entitled to notice of, and to vote at, the annual meeting of stockholders.

Cumulative Voting Rights

Each common share entitles the person in whose name it is registered in the books of the Company to one (1) vote with respect to all matters to be taken up during the annual meeting of stockholders. Each holder of common stock shall have cumulative voting rights with respect to the election of the members of the board of directors of the Company. Cumulative voting entitles each stockholder to cumulate his shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or distribute them on the same principle among as many nominees as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

Security Ownership of Record and Beneficial Owners of more than 5% of the Company's Shares of Common Stock as of March 31, 2014

| Title of Class | Name, Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | Number of Shares Held | Percent of Class |
|---|---|---|---|---|---|
| Common | Megaworld Corporation[1] 28/F The World Centre 330 Sen. Gil Puyat Avenue, Makati City | Megaworld Corporation | Filipino | 11,993,051,438 | 81.7176% |
| | PCD Nominee Corporation (Filipino) G/F Makati Stock Exchange Bldg., 6767 Ayala Avenue, Makati City | Megaworld Corporation, a client of a participant of PCD Nominee Corporation (Filipino) | | 375,000<br>11,993,426,438 | 0.0025%<br>81.7202% |

[1]The Board of Directors of Megaworld Corporation authorizes its Chairman of the Board and President or in his absence the Chairman of the Meeting, to vote Megaworld Corporation's common shares in the Company.

| | | | | | |
|---|---|---|---|---|---|
| Common | PCD Nominee Corporation (Filipino) G/F Makati Stock Exchange Bldg., 6767 Ayala Avenue, Makati City | The shares registered in the name of PCD Nominee Corporation (Filipino) are either beneficially owned by the participants of the PCD composed of custodian banks and brokers or held by them in trust for their clients. No PCD participant owns 5% or more of the Company's shares of common stock. | Filipino | 1,523,915,0731[2] | 10.3836% |

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 March 31, 2014

| Title of Class | Name of Beneficial Owner | Amount/Nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Directors | | | | |
| Common | Andrew L. Tan | 24,277,777 (direct) | Filipino | 0.16542278% |
| | | 1[3] (indirect) | Filipino | 0.00000001% |
| | | 11,993,426,438[4] (indirect) | Filipino | 81.72024855% |
| | | 138,133,820[5] (indirect) | Filipino | 0.94120967% |
| Common | Gerardo C. Garcia | 636,277 (direct) | Filipino | 0.00433543% |
| Common | Anthony Charlemagne C. Yu | 1 (direct) | Filipino | 0.00000001% |
| Common | Katherine L. Tan | 1 (direct)<br>24,277,777[6] (indirect) | Filipino<br>Filipino | 0.00000001%<br>0.16542278% |
| Common | Enrique Santos L. Sy | 11,892 (direct) | Filipino | 0.00008103% |
| Common | Evelyn G. Cacho | 35,240 (direct) | Filipino | 0.00024012% |
| Common | Alejo L. Villanueva, Jr. | 1 (direct) | Filipino | 0.00000001% |

[2] This includes 375,000 shares beneficially owned by Megaworld Corporation.
[3] The share is beneficially owned by Katherine L. Tan, spouse of Andrew L. Tan.
[4] The shares are held by Megaworld Corporation which authorizes Andrew L. Tan, in his capacity as Chairman of the Board and President, or in his absence the Chairman of the Meeting, to vote Megaworld's common shares in the Company.
[5] The shares are held by The Andresons Group, Inc. of which Andrew L. Tan is a controlling shareholder.
[6] The shares are beneficially owned by Andrew L. Tan, spouse of Katherine L. Tan.

| | | | | |
|---|---|---|---|---|
| President and Four Most Highly Compensated Officers | | | | |
| Common | Anthony Charlemagne C. Yu | Same as above | | |
| Common | Ricky S. Libago | 0 | Filipino | n/a |
| Common | Antonio E. Llantada, Jr. | 92,532 (direct) | Filipino | 0.00063049% |
| Common | Evelyn G. Cacho | Same as above | | |
| Common | Ricardo B. Gregorio | 0 | Filipino | n/a |
| Other Executive Officers | | | | |
| Common | Jhoanna Lyndelou T. Llaga | 0 | Filipino | n/a |
| Common | Giovanni C. Ng | 0 | Filipino | n/a |
| Common | Dennis E. Edaño | 0 | Filipino | n/a |
| Common | Celeste Z. Sioson | 0 | Filipino | n/a |
| Common | All directors and executive officers as a group | 25,053,721 (direct) | Filipino | 0.170709873% |

Voting Trust Holders of 5% or More

The Company has no knowledge of any person holding more than five percent (5%) of the Company's shares of common stock under a voting trust or similar agreement.

Changes in Control

No change in control of the Company has occurred since the beginning of its last fiscal year. The Company has no knowledge of any existing arrangements that may result in a change in control of the Company.

**Directors and Executive Officers**

There are seven (7) members of the Company's Board of Directors, two (2) of whom are independent directors. All incumbent directors were elected during the annual meeting of stockholders held on 10 July 2013 and will hold office for one (1) year and/or until their successors are elected and qualified.

Information concerning the background of the directors and executive officers of the Company is provided in pages 5 to 9 of the Company's Annual Report to Stockholders.

Procedure for Nomination and Election of Independent Directors

Pursuant to Article II, Section 2 of the Company's By-Laws, the nomination and election of independent directors shall be conducted in accordance with SRC Rule 38.

SRC Rule 38 provides that the nomination and election of independent directors shall be conducted in accordance with the following rules:

1. Nomination of independent directors shall be conducted by the Nomination Committee prior to a stockholders' meeting. All recommendations shall be signed by nominating stockholders and shall bear the conformity of the nominees.

2. The Nomination Committee shall pre-screen the nominees and prepare a final list of candidates.

3. The final list of candidates shall contain the business and/or professional experience of the nominees for independent directors, which list shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in

accordance with SRC Rule 20, or in such other reports the Company is required to submit to the Commission. The name of the person or group of persons who recommended the nominees for independent directors shall be identified in such report including any relationship to the nominees.

4. Only nominees whose names appear in the final list of candidates shall be eligible for election as independent directors. No other nominations shall be entertained after the final list of candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

5. The conduct of the election of independent directors shall be made in accordance with the standard election procedures of the Company in its by-laws, subject to pertinent laws, rules and regulations of the Commission.

6. It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent directors. He shall ensure that independent directors are elected during the stockholders' meeting.

7. In case of failure of election for independent directors, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

Nominees

Directors are elected annually by the stockholders at the annual stockholders' meeting to serve until the election and qualification of their successors. The Nomination Committee composed of Enrique Santos L. Sy as Chairman, Gerardo C. Garcia and Alejo L. Villanueva, Jr. as members, accept nominees to the Board of Directors, including nominees for independent directors. The Committee is responsible for screening and qualifying the list of nominees. The following is the complete and final list of nominees and candidates for members of the Board of Directors:

1. Andrew L. Tan
2. Katherine L. Tan
3. Anthony Charlemagne C. Yu
4. Enrique Santos L. Sy
5. Evelyn G. Cacho
6. Gerardo C. Garcia-Independent Director
7. Alejo L. Villanueva, Jr.– Independent Director

Independent Directors

This year's nominees for directors include two persons who qualify as independent directors. Mr. Carmelo Jose J. Canto III nominated incumbent independent director, Mr. Gerardo C. Garcia, for another term, while Ms. Maria Rosario Justo nominated incumbent independent director, Mr. Alejo J. Villanueva, for another term. Ms. Justo and Messrs. Canto, Garcia and Villanueva are not related by consanguinity or affinity up to the fourth civil degree.

Significant Employees

The business of the Company is not highly dependent on the services of personnel outside of Senior Management.

Family Relationships

Mr. Andrew L. Tan and Ms. Katherine L. Tan, both directors of the Company, are spouses.

Material Pending Legal Proceedings

The Company is not aware of the occurrence, as of the date hereof and during the past five (5) years preceding this date, of any of the following events which it believes to be material to the evaluation of the ability or integrity of any of its directors, nominees for election as director, or executive officers:

1. Any bankruptcy petition filed by or against any business of a director, nominee for election as director, or executive officer who was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2. Any director, nominee for election as director, or executive officer being convicted by final judgment in a criminal proceeding, domestic or foreign, or being subject in his personal capacity to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

3. Any director, nominee for election as director, or executive officer being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

4. Any director, nominee for election as director, or executive officer being 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, and the judgment has not been reversed, suspended, or vacated.

Related Transactions

The Company paid a management/leasing fee of P1.2 million to an affiliate for the management/leasing of parking slots and some commercial units. In 2013, total commissions earned by a subsidiary from the sale of its parent company's real estate properties amounted to P147.6 million.

The Company, in the normal course of business, enters into transactions with related companies primarily consisting of lease of properties and advances for real estate transactions, working capital requirements and other business-related purposes. Rental for leased properties and interest on interest-bearing advances are within market rates. The related parties that have entered into transactions with the Company are identified in Schedules C & F of the SEC Supplementary Schedules as of December 31, 2013. Related parties are able to settle their obligations in connection with transactions with the Company and the Company does not foresee risks or contingencies arising from these transactions. Additional information on related party transactions is provided in Item 22 of the Notes to the Audited Consolidated Financial Statements of the Company and its Subsidiaries attached as Exhibit 1 hereof and incorporated herein by reference.

Other than those disclosed in the Company's Financial Statements, the Company has not entered into other related party transactions

Resignation/Disagreement

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual meeting of stockholders because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

**Compensation of Directors and Executive Officers**

Compensation of Certain Officers

The total annual compensation paid to the President/CEO and four most highly compensated executive officers of the Company amounted to Php10,759,782 in 2013 and Php9,779,201 in 2012.

The projected total annual compensation of the named executive officers for the current year is Php11,498,967.

Compensation of Directors

The members of the Board of Directors of the Company receive a standard per diem for attendance in board meetings. In 2013, the Company paid a total of Php500,000 for directors' per diem. For 2014, the Company has allocated the same amount of Php700,000 for directors' per diem.

Apart from directors' per diem, there are no other arrangements, such as consulting contracts, pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the Company's last completed fiscal year, and the ensuing year, for any service provided as a director.

Summary of Compensation Table

The following table identifies the President and the four most highly compensated officers of the Company and summarizes their aggregate compensation in 2012 and 2013 and estimated aggregate compensation for 2014:

| Name and Principal Position | Year | Salary | Bonus | Others | Total Annual Compensation |
|---|---|---|---|---|---|
| Anthony Charlemagne C. Yu, President & CEO | | | | | |
| Ricky S. Libago SVP for Property Development | | | | | |
| Antonio E. Llantada, Jr., VP for Audit and Management Services | | | | | |
| Evelyn G. Cacho, VP for Finance | | | | | |
| Ricardo B. Gregorio, VP for HR, General & Admin Services | | | | | |
| President and 4 Most Highly Compensated Officers | 2012 | 7,831,277 | 703,732 | 1,244,192 | 9,779,201 |
| | 2013 | 8,678,714 | 738,827 | 1,342,241 | 10,759,782 |
| | 2014 | 9,286,224 | 790,545 | 1,422,198 | 11,498,967 |
| All Other Officers and Directors as a Group | 2012 | 5,231,575 | 453,955 | 1,113,274 | 6,798,804 |
| | 2013 | 23,122,174 | 1,941,404 | 2,374,724 | 27,438,301 |
| | 2014 | 24,740,725 | 2,072,302 | 2,716,124 | 29,534,151 |

Employment Contracts and Termination of
Employment and Change-in-Control Arrangements

Executive officers are appointed by the Board of Directors to their respective offices. Certain executive officers are employees of the Company and are entitled to standard employee benefits extended by the Company to its employees.

Other than benefits available under the Company's retirement plan, there is no compensatory plan or arrangement with respect to an executive officer which results or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company and its subsidiaries, or a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

Outstanding Warrants and Options

There are no outstanding warrants or options in respect of the Company's shares that are held by the Company's CEO, or any director or executive officer of the Company.

**Independent Public Accountants**

The Board of Directors of the Company, in consultation with the Audit Committee composed of Gerardo C. Garcia as Chairman and Alejo L. Villanueva, Jr. and Evelyn G. Cacho as Members, will recommend to the stockholders the engagement of Punongbayan & Araullo as external auditors of the Company for 2014.

The Company complied with SRC Rule 68(3)(b)(iv) and the Company's Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the signing partner changed after five (5) years of engagement. A two-year cooling off period shall be observed in the re-engagement of the same signing partner. In this regard, starting the year ending 31 December 2011, Mr. Nelson Dinio, one of the Audit and Assurance Partners of Punongbayan and Araullo (P&A), was designated as the signing partner for the audit of the Company's financial statements. Ms. Mailene Sigue-Bisnar, also one of the Audit and Assurance Partners of P&A, handled the audit of the Company's financial statements for the past five years from 2006 to 2010.

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 and its subsidiaries.

Representatives of Punongbayan & Araullo are expected to be present at the annual meeting of stockholders. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

**Financial Information**

Financial Statements of the Company and its subsidiaries as of 31 December 2013, 2012 and 2011, the Interim Financial Statements of the Company and its subsidiaries as of 31 March 2014, and the Management's Discussion and Analysis of Results of Operations and Financial Condition for the corresponding periods are contained in the Company's Annual Report to Stockholders and are incorporated herein by reference.

## OTHER MATTERS

### Action with Respect to Reports

The minutes of the annual meeting of stockholders held on 10 July 2013 will be submitted to the Company's stockholders for approval. The minutes will refer to the adoption of stockholders' resolutions pertaining to the following matters:

1. Approval of Minutes of the Annual Meeting held on June 13, 2012
2. Appointment of External Auditors
3. Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management
4. Election of Directors

The approval or disapproval of said minutes will constitute merely an approval or disapproval of the correctness of the minutes but will not constitute an approval or disapproval of the matters referred to in the minutes.

### Amendment of Charter, Bylaws or Other Documents

The Company proposes to amend the third Article of its Articles of Incorporation to reflect the complete principal office address of the Corporation from "Metro Manila, Philippines" to "21$^{st}$ Floor, The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, Philippines." The amendment is being made in compliance with SEC Memorandum Circular No. 6, Series of 2014 which requires existing corporations whose articles of incorporation indicate "Metro Manila" as their principal office address to file an amended articles of incorporation in order to specify their complete address.

### Other Proposed Action

The stockholders will be asked to ratify all acts and resolutions of the Board of Directors, Board Committees and Management adopted during the period covering 1 January 2013 through 31 December 2013.

These acts are covered by resolutions duly adopted by the Board of Directors and its Board Committees, such as:

1. Appointment of Contract Signatories;
2. Issuance of common shares to Megaworld Corporation;
3. Appointment of Proxies and Nominees;
4. Application for Permits and Licenses for Projects;
5. Operation of Bank Accounts and other Bank Transactions;
6. Development and Operation of Projects;
7. Property Acquisitions, Dispositions, Leases and Joint Ventures;
8. Application for Telecommunication Subscriptions;
9. Holding of 2013 Annual Meeting of Stockholders;
10. Reallocation of Rights Offer Proceeds;
11. Sale of interest in Suntrust Properties, Inc.;
12. Registration of Master Deeds and Restrictions covering Projects.

### Voting Procedures

<u>Vote Required</u>

In the election of directors, the seven (7) nominees garnering the highest number of votes will be elected as members of the board of directors, provided that there shall always be at least two (2) independent directors in the Company's board of directors.

The vote of stockholders representing at least two-thirds of the outstanding capital stock of the Company will be required to approve the proposed amendment to the third Article of the Company's Articles of Incorporation.

For all other matters proposed to be acted upon, the vote of majority of the outstanding capital stock will be required for approval.

Method of Counting of Votes

Each common share entitles the person in whose name it is registered in the books of the Company to one vote with respect to all matters to be taken up during the annual meeting of stockholders. In the election of directors, each holder of common share may vote such number of shares for as many persons as there are directors to be elected or may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

There will be seven (7) persons to be elected to the Company's board of directors, including two (2) independent directors. In the event that the number of nominees to the board of directors should exceed the number of board seats, voting shall be done by ballot. However, if the number of nominees to the board of directors will not exceed the number of board seats, voting will be done by a show of hands. Election inspectors duly appointed during the meeting shall be responsible for counting the number of votes, subject to validation by representatives of Punongbayan & Araullo, the Company's external auditors.

**The Company shall provide, without charge, to each stockholder a copy of its annual report on SEC Form 17-A, upon written request addressed to Empire East Land Holdings, Inc., Attention: Mr. Dennis E. Edaño, Corporate Secretary, 24th Floor The World Centre, 330 Sen. Gil Puyat Avenue, Makati City.**

**SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on May 14, 2014.

**EMPIRE EAST LAND HOLDINGS, INC.**

By:

**EVELYN G. CACHO**
Vice President for Finance

## ANNUAL REPORT TO STOCKHOLDERS

### Business Development

Empire East Land Holdings, Inc. (the "Company") was incorporated under Philippine law on 15 July 1994. Prior to its incorporation, the Company was a division of Megaworld Corporation (formerly, Megaworld Properties & Holdings, Inc.) and was then known as its Community Housing Division. In 1994, Megaworld Corporation decided to spin off its Community Housing Division into what is now the Company for the purpose of separating its high-end residential and office business from its lower and middle-income housing business. As of December 2013, Megaworld holds 81.72% of the Company.

As of December 31, 2013, the Company holds 100% equity interest in Eastwood Property Holdings, Inc. (EPHI); Valle Verde Properties, Inc. ("VVPI"); Sherman Oak Holdings, Inc. ("SOHI") and Empire East Communities, Inc. ("EECI"); 73% in Laguna BelAir Science School, Inc. (LBAS); 60% in Sonoma Premier Land, Inc. ("SPLI") (formerly, "Galleria Corsini Holdings, Inc."); and 47% in Gilmore Property Marketing Associates, Inc. ("GPMAI").

EPHI, which was incorporated on September 5, 1996, serves as the marketing arm of the Company and markets the projects of the Company and those of other related parties.

SPI, which was incorporated on November 14, 1997, is a company that is engaged in the development and construction of affordable projects. In 2008, SPI increased its authorized capital stock and the Company subscribed to 262.5 million common shares at P1.00 par value, paid by way of conversion of advances into equity, resulting in an increase in the Company's ownership in SPI from 40% to 80%. In 2011, the percentage ownership of the Company in SPI was reduced to 33% due to Megaworld's subscription to SPI's increase in capital stock. On June 7, 2013, the Company sold its 33% ownership interest in SPI to Megaworld. As a result of the sale, SPI ceased to be an associate of the Company.

VVPI was incorporated on October 13, 2006. In 2008, the Company acquired shares of VVPI from another stockholder increasing the Company's ownership in VVPI to 100%.

SPLI was incorporated on February 26, 2007 and started its commercial operations in 2008. In 2008, 200 million shares in SPLI were acquired by the Company, increasing its ownership to 60% from 20%.

EECI was incorporated on October 14, 2008 and is wholly owned by the Company. It acts as a marketing arm of the Company.

SOHI was incorporated on February 2, 2007. In January 2008, the Company acquired 100% ownership in SOHI.

GPMAI was incorporated on September 5, 1996 to acquire, lease and construct or dispose of properties. In 2010, the Company acquired 52% ownership in GPMAI by subscribing to 27M shares by way of conversion of advances into equity. In 2012, GPMAI issued 5M shares of stock to a third party which resulted to the decrease of Company's ownership to 47%.

LBASSI (formerly, Laguna BelAir School Inc. or LBASI) is a company incorporated on February 13, 1996 and is presently operating a school for primary and secondary education. The change in name was approved in August 2013. The Company owns 73% of LBASSI.

Neither the Company nor its subsidiaries has been the subject of a bankruptcy, receivership or similar proceeding or has been involved in any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business except as otherwise stated herein.

**General Nature and Scope of Business**

**Empire East Land Holdings, Inc.** is a real estate developer, builder and seller. Its core products are mid-rise to high-rise condominium towers within Metro Manila as well as single-detached homes and house-and-lot packages in progressive suburban areas.

The Company has set trends in residential concepts. It was the first to conceptualize **township developments** that weaved several households together in one fully functioning and fully equipped community that offers common use of facilities such as courts, pools, churches, stores and schools as evident in its 1994 project, the Laguna Bel-Air in Sta. Rosa City, Laguna.

Another trend would be its **Transit Oriented Developments** which consist of condominium clusters directly linked to mass transport systems. This includes the Metro Rail Transit (MRT) and Light Rail Transit (LRT) as well as major bus lines. This is popular among aspiring city dwellers today as it provides faster and more efficient mobility.

Recently, the Company launched its newest residential living concept **Urban Resorts** which highlights a community's indulgent and unique amenities such as highly styled pools, ponds, voguish clubhouse, play areas and courts. Its aim is to invite aspiring homeowners to experience the “vacation lifestyle” by giving them access to resort facilities without having to physically leave the city.

**Update on Projects**

**KASARA URBAN RESORT RESIDENCES** is an approximately 1.8 hectare development located along Eagle Ave. & P.E. Antonio St., Brgy. Ugong, Pasig City. This location is a convenient walking distance from C5 Road, Tiendesitas, SM Center Pasig, and Valle Verde Subdivisions. Kasara is composed of 6 high-rise towers with water features in the middle of the development, including a lake-inspired pool, a clubhouse, mini bar, koi ponds, water fountains, man-made waterfalls and fitness trails. Site development works have been completed and construction of the clubhouse and swimming pool is on-going.

**THE ROCHESTER** is an approximately 3-hectare development located in Pasig City which features mid-rise and high-rise residential buildings equipped with stylish recreational facilities.

**SAN LORENZO PLACE** is an upscale high-rise development along EDSA corner Chino Roces Avenue in Makati City. It features a high-end shopping mall on a podium with a direct link to MRT-3 Magallanes station that can easily bring its future dwellers to the Makati central business district and the rest of Metro Manila. Completion of construction is expected by the end of 2014 for Tower 4, 2015 for Tower 1 and 2017 for Tower 2. Turn-over of the first tower is expected to take place in 2014.

**PIONEER WOODLANDS** is a 6-tower development on a 1.5 hectare terrain located along EDSA. Since it is linked by a bridge to the MRT Boni Station, it offers superior access to every vital point in Metro Manila. Within the development, one will find a swimming pool, basketball court, jogging trails, pocket gardens and gyms. Tower 1 has been completed and the units are currently being turned over to buyers. Tower 2 is near completion while the construction of Towers 3 and 4 are in full swing.

**LITTLE BAGUIO TERRACES** is a 4-tower community developed on a 1.8 hectare land located along N. Domingo Street in San Juan City. This property conveniently links N. Domingo St. from one side to Aurora Blvd. on the other side by a 177-m access road – making it highly accessible to the schools and establishments in both streets. It is also conveniently located between two main stations of the LRT2 namely J. Ruiz and Gilmore stations. Turnover of Tower 1 is ongoing. The remaining 3 towers are in various stages of construction.

**SONOMA** is a 50-hectare township development in Sta. Rosa City Laguna, the place where Empire East first set its roots via the development of its first township project, the Laguna BelAir. The Sonoma offers single-detached homes and house-and-lot packages to its aspiring homeowners in 6 house models. Turnover of two of its four phases, The Enclave and Country Club, is currently undergoing.

**THE CAMBRIDGE VILLAGE** is a multi-cluster, large-scale residential development located at the boundary of the Pasig-Cainta area. Some clusters have been completed while construction is still on-going for the remaining clusters.

**SOUTHPOINT SCIENCE PARK** is a 31-hectare property located at Gimalas, Balayan, Batangas which will be developed into a mixed-use development.

**Market Price of and Dividends on Common Equity**

The Company's common shares are traded on the Philippine Stock Exchange ("PSE"). The following table sets out, for the periods indicated, the high and low sales price for the Company's common shares as reported on the PSE:

| Year | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 2012 High | 0.67 | 0.84 | 0.94 | 1.13 |
| Low | 0.60 | 0.61 | 0.76 | 0.82 |
| 2013 High | 1.10 | 1.21 | 1.02 | 0.98 |
| Low | 0.98 | 0.92 | 0.92 | 0.90 |
| 2014 High | 0.91 | | | |
| Low | 0.90 | | | |
| 5/14/14 Close | 1.00 | | | |

**Holders**

As of 31 March 2014, there were 12,868 holders of the Company's common shares. The following table sets forth the twenty largest shareholders of the Company as of 31 March 2014.

| Rank | Name of Holder | Number of Shares | Percentage of Ownership |
|---|---|---|---|
| 1. | Megaworld Corporation | 11,993,426,438 | 81.7202% |
| 2. | PCD Nominee Corporation (Filipino) | 1,523,540,073[1] | 10.3836% |
| 3. | PCD Nominee Corporation (Non-Filipino | 729,536,645 | 4.9709% |
| 4. | The Andresons Group, Inc. | 138,133,820 | 0.9412% |
| 5. | Andrew L. Tan | 24,277,777 | 0.1654% |
| 6. | Simon Lee Sui Hee | 16,685,206 | 0.1137% |
| 7. | Ramon Uy Ong | 14,950,000 | 0.1019% |
| 8. | Lucio W. Yan | 10,350,000 | 0.0705% |
| 9. | Union Properties, Inc. | 6,157,808 | 0.0420% |
| 10. | Alberto Mendoza and/or Jeanie C. Mendoza | 4,444,106 | 0.0303% |
| 11. | Evangeline R. Abdullah | 4,324,000 | 0.0295% |
| 12. | George T. Yang | 3,675,400 | 0.0250% |
| 13. | Zheng Chang Chua | 3,220,000 | 0.0219% |
| 14. | Tiong C. Rosario | 3,138,791 | 0.0214% |
| 15. | Maximino S. Uy &/or Lim Hue Hua | 3,105,000 | 0.0212% |
| 16. | Trans-Asia Securities, Inc. | 3,000,000 | 0.0204% |
| 17. | Luisa Co Li | 2,902,908 | 0.0198% |
| 18. | Edward N. Cheok | 2,875,000 | 0.0196% |
| 19. | Aboitiz Equity Ventures, Inc. | 2,813,843 | 0.0192% |
| 20. | Carolina Ong Yu | 2,415,000 | 0.0165% |

[1] This includes 375,000 shares beneficially owned by Megaworld Corporation.

The information provided above is not being presented in connection with securities to be issued pursuant to an acquisition, business combination or other reorganization initiated by or involving the Company.

**Dividends**

The 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, that 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 (2/3) of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose.

No stock dividends were declared on the Company's common shares for 2007 to 2012. The Company declared a 15% stock dividend on March 15, 2006, which was paid on August 8, 2006 to all shares of common stock outstanding as of July 13, 2006.

The Corporation Code prohibits stock corporations from retaining surplus profits in excess of one hundred per cent (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.

**Recent Sales of Unregistered or Exempt Securities**

On 30 October 2012, 2,695,239,834 new common shares were issued to stockholders pursuant to a 1:4 pre-emptive stock rights offer and were listed with the Philippine Stock Exchange. The rights shares were issued at Php1.00 per share.

Relative to the Company's pre-emptive rights offer, the Company filed with the Philippine Securities and Exchange Commission ("SEC") an Application for Confirmation of Exempt Transaction pursuant to the Securities Regulation Code (SRC). On August 24, 2012, the SEC issued an order confirming that the rights offer is an Exempt Transaction under Section 10.1 (e) and (i) of the SRC.

On 26 June 2013, One Billion Two Hundred Million (1,200,000,000) common shares of the capital stock of the Company were issued to Megaworld Corporation, at the price of One Peso & 05/100 centavos per share for an aggregate subscription price of One Billion Two Hundred Sixty Million (Php1,260,000,000.00).

Relative to the subscription of Megaworld Corporation, the Company filed on 05 July 2013 with the Philippine Securities and Exchange Commission ("SEC") a Notice of Exempt Transaction under Section 10.1(e) of the Securities Regulation Code.

**Directors and Executive Officers**

There are seven (7) members of the Company's Board of Directors, two of whom are independent directors. An independent director is a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director [SRC Rule 38]. All directors were elected during the annual meeting of stockholders held on 10 July 2013 for a term of one year and until their successors are elected and qualified.

Information concerning the background of the directors/nominees for directors and executive officers of the Company indicating their principal occupation or employment and their business or professional experience for the past five (5) years is provided below.

The table sets forth each member of the Company's Board of Directors and the Company's executive officers as of 1 April 2014.

| Name | Present Position |
| --- | --- |
| Andrew L. Tan…………………… | Chairman of the Board |
| Gerardo C. Garcia……………… | Vice Chairman/Independent Director |
| Katherine L. Tan………………… | Director |
| Anthony Charlemagne C. Yu….. | Director/President |
| Alejo L. Villanueva, Jr…………. | Independent Director |
| Evelyn G. Cacho………………… | Director/Vice President for Finance |
| Enrique Santos L. Sy…………. | Director |
| Ricky S. Libago…………………. | Senior Vice President for Property Development |
| Antonio E. Llantada, Jr………… | Vice President for Audit and Management Services |
| Ricardo B. Gregorio…………… | Vice President for Human Resources General and Administration Services |
| Jhoanna Lyndelou T. Llaga…… | Vice President for Marketing |
| Giovanni C. Ng…………………. | Treasurer |
| Dennis E. Edaño………………. | Corporate Secretary |
| Celeste Z. Sioson……………… | Assistant Corporate Secretary |

Following is a brief profile of the incumbent directors and executive officers of the Company, indicating their respective business or professional experience for the past five (5) years.

**Andrew L. Tan**
Chairman of the Board

Mr. Tan, Filipino, 64 years old, Filipino, has served as Chairman of the Company's Board of Directors since its incorporation in July 1994. He was also Treasurer of the Company from July 1994 to May 1998. He is the Chairman of the Board and President of Megaworld Corporation, a publicly listed parent of the Company, and Suntrust Properties, Inc., a wholly owned subsidiary of Megaworld engaged in the development and marketing of affordable housing projects. He pioneered the live-work-play-learn model in real estate development through Megaworld's integrated township communities, thus fueling the growth of the business process outsourcing (BPO) industry. He chairs publicly-listed Alliance Global Group, Inc. which holds interests in property development through Megaworld, integrated tourism estates development through Global-Estate Resorts, Inc. and Travellers International Hotel Group, Inc. which owns Resorts World Manila, and food and beverage manufacturing and distribution through Emperador Inc., which owns Emperador Distillers, Inc., the leading brandy manufacturer and distributor in the Philippines, and Golden Arches Development Corporation, which operates and franchises quick service restaurants under the McDonald's brand. Mr. Tan also serves in the boards of various affiliates including Eastwood Cyber One Corporation, Megaworld Land, Inc., Megaworld Central Properties, Inc., Townsquare Development, Inc. and Richmonde Hotel Group International Limited. Mr. Tan is Chairman of Megaworld Foundation, Megaworld's corporate social responsibility arm, which primarily focuses on the promotion of education through scholarship programs for financially handicapped but deserving students, and supports causes that promote poverty alleviation, people empowerment, social justice, good governance and environmental conservation.

**Anthony Charlemagne C. Yu**
Director/President

Mr. Yu, 51 years old, Filipino, has been a member of the Company's Board of Directors since January 1998 and has served as President of the Company for the same period. He joined Megaworld Land, Inc. in September 1996 and served as its Vice President until December 1997. Mr. Yu obtained his Bachelor of Arts degree major in Political Science from the Ateneo de Manila University and his Bachelor of Laws degree from the University of the Philippines. He holds a Masters Degree from the University of London. Mr. Yu previously worked for Ten Knots Development Corporation where he served as Vice President for Corporate and Legal Affairs and was a member of both its Executive and Management Committees. He also worked as a legal associate at the Ponce Enrile Cayetano Reyes & Manalastas Law Offices and was Special Legal Counsel to the Secretary of Health, Juan Flavier. He also served as a Consultant in the Senate of the Philippines. He was a member of the College Faculty of the Ateneo de Manila University for eight (8) years, from 1985 to 1993 and sat on the board of the Institute of the Philippine Culture of the Ateneo de Manila University. Mr. Yu has also served as a Law Professor in the College of Law of the University of the Philippines. He likewise served as Consultant at the Philippine Senate. He was Philippine Delegate to the Philippines-China Business Council held in Beijing, China in 1996 and the Integrated Environmental Management Forum held in Israel in 1995. Mr. Yu was a member of the United Nations Development Program's Regional Network of Legal Experts on Marine Pollution and the Board of Trustees of Management Advancement Systems, Association, Inc. He is currently the Chairman of the Board and President of the Philippine Science-assisted school, Laguna BelAir School, Inc. He is the President of the El Nido Foundation and the Chairman of the ERDA Foundation. He is also a member of the Board of Trustees of IBON Foundation, a non-profit research and education development institution that provides socio-economic research and analysis on people's issues to various sectors. Mr. Yu is President and Director of various affiliates of the Company including Empire East Communities, Inc., Megaworld Central Properties, Inc., Sherman Oak Holdings, Inc., Sonoma Premier Land, Inc., Valle Verde Properties, Inc. and Megaworld Newport Property Holdings, Inc.

**Katherine L. Tan**
Director

Ms. Tan, 62 years old, Filipino, was elected to the Board on 9 June 2009. She previously served as director of the Company from 1994 to 1996. She is concurrently a Director of Megaworld Corporation, Director and Treasurer of Alliance Global Group, Inc., Emperador Inc., Alliance Global Brands, Inc. and Emperador Distillers, Inc. She has extensive experience in the food and beverage industry and is currently Director of The Bar Beverage, Inc. and Choice Gourmet Banquet, Inc. She is Director and President of Raffles & Company, Inc.

**Gerardo C. Garcia**
Vice Chairman/Independent Director

Mr. Garcia, 72 years old, Filipino, is an independent director of the Company. He has been a member of the Company's Board of Directors since October 1994 and has served as Vice Chairman of the Board since December 1997. He also served as President of the Company from October 1994 until December 1997. He concurrently serves in the boards of Megaworld Corporation, Global-Estate Resorts, Inc., Suntrust Properties, Inc. and Megaworld Land, Inc. as independent director. Prior to joining the Company, Mr. Garcia was 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.

**Enrique Santos L. Sy**
Director

Mr. Sy, 64 years old, Filipino, was elected to the Board on 9 June 2009. Previously, he served as director of the Company from April 1996 to April 1998 and from June 1999 to December 23, 2008. Mr. Sy was Corporate Secretary of the Company from July 1994 until 31 March 2011. Mr. Sy concurrently serves in the boards of Megaworld Corporation and First Oceanic Property Management, Inc. He is Director and the Corporate Secretary of Asia Finest Cuisine, Inc. and the Corporate Secretary of Empire East Communities, Inc. Mr. Sy previously worked as Advertising Manager of Consolidated Distillers of the Far East, Inc., Creative Director of AdCentrum Advertising, Inc., Copy Chief of Admakers, Inc. and Peace Advertising Corporation and Creative Associate of Adformatix, Inc. Mr. Sy graduated with honors from the Ateneo de Manila University with the degree of Bachelor of Arts in Communication Arts.

**Evelyn G. Cacho**
Director/Vice President for Finance

Ms. Cacho, 52 years old, Filipino, has served as director of the Company since February 20, 2009. Ms. Cacho has served as Vice President for Finance of the Company since February 2001. Ms. Cacho joined the Company in February 1995. She currently serves as director of the Company's subsidiaries, Empire East Communities, Inc., Laguna BelAir School, Inc., Sonoma Premier Land, Inc., Valle Verde Properties, Inc. and Sherman Oak Holdings, Inc. She concurrently serves as Director in PSE-listed Suntrust Home Developers, Inc. She also holds the position of Treasurer of Megaworld Central

Properties, Inc. and Megaworld Newport Property Holdings, Inc. She is the Assistant Corporate Secretary of Gilmore Property Marketing Associates, Inc. Prior to joining the Company, she had extensive experience in the fields of financial/operations audit, treasury and general accounting from banks, manufacturing and trading companies. Ms. Cacho has a bachelor's degree in Business Administration major in Accounting.

**Alejo L. Villanueva, Jr.**
Independent Director

Mr. Villanueva, 72 years old, Filipino, is an independent director of the Company since June 2007. He is concurrently an independent director of Alliance Global Group, Inc. and Suntrust Home Developers, Inc. and a Director of First Capital Condominium Corporation, a non-stock, non-profit corporation. He is a professional consultant who has more than twenty years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse (BOT program, a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, summa cum laude. He has a master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

**Ricky S. Libago**
Senior Vice President for Property Development

Mr. Libago, 49 years old, Filipino, has served as Senior Vice President for Project Development since he joined the Company in July 2008. Prior to joining the Company, he worked with Citibank Japan for 3 years and Citibank Philippines/Citibank Asia Pacific for 5 years with the Corporate Realty Services Group. He also previously worked with Universal Rightfield Holdings, Inc. (a real estate joint venture company with DMCI), Megaworld Land, Inc. (a subsidiary of Megaworld), Ayala Property Management Corporation (a subsidiary of Ayala Land, Inc.) and Makati Development Development (the construction arm of Ayala Land, Inc.). Mr. Libago is a licensed Civil Engineer and a Sanitary Engineer. He obtained his Civil Engineering degree from Ateneo de Cagayan (Xavier University) and his Sanitary Engineering degree from the National University.

**Antonio E. Llantada, Jr.**
Vice President for Audit and Management Services

Mr. Llantada, 58 years old, Filipino, has served as Vice President for Audit and Management Services since December 1997. Before joining the Company, Mr. Llantada served in the Church of Jesus Christ of Latter-Day Saints for eleven years, holding various positions such as Area Materials Management Manager, Area Finance Manager, Purchasing Manager and Distribution Manager. He also worked with MB Finance, Inc. (formerly, Jardine Manila Finance, Inc.) as Internal Audit Manager and with SGV & Co. as Senior Auditor. Mr. Llantada is a member of the Philippine Institute of Certified Public Accountants. Mr. Llantada graduated from the De La Salle University in 1977 with the degree of Bachelor of Arts major in Behavioral Sciences, and in 1978 with the degree of Bachelor of Science in Commerce major in Accounting. In 1991, he obtained his Masters Degree in Business Administration from the Ateneo de Manila University.

**Ricardo B. Gregorio**
Vice President for Human Resources General and Administration Services

Mr. Gregorio, 51 years old, Filipino, has served as Vice President for Human Resources General and Administration Services since June 18, 2003. Prior to his appointment, Mr. Gregorio was Assistant Vice President for HRAD, Purchasing and Warehouse Department. He joined the Company in August 1997 as Purchasing Manager and served as such until October 1997. From November 1997 to December 1998, he served as HRAD and Purchasing Senior Manager of the Company. Mr. Gregorio is a certified public accountant by profession. He graduated cum laude from the Araullo University in 1988 with a bachelor's degree in Commerce major in accounting. In 2000, he obtained his Masters Degree in Business Administration from the University of the Philippines and in 2002, a diploma in Human Resource Management from the University of Santo Tomas.

**Jhoanna Lyndelou T. Llaga**
Vice President for Marketing

Ms. Llaga, 42 years old, Filipino has served as Vice President for Marketing since March 2011. She currently serves as director of Empire East Communities, Inc, the Company's subsidiary and as an SVP of Megaworld Central Properties, Inc., an affiliate. She joined the company in April 1995 and held various positions. She was appointed as Marketing Head in June 2003 and was promoted to Assistant Vice President for Marketing in July 2009. Ms. Llaga graduated from the University of the Philippines in March 1994 with the degree of Bachelor of Arts in English Language Studies.

**Giovanni C. Ng**
Treasurer

Mr. Ng, 40 years old, Filipino, has served as Treasurer of the Company since January 6, 2002. He is also the Finance Director of Megaworld Corporation and Treasurer of Adams Properties, Inc. and Townsquare Development, Inc. He serves as director in Eastwood Property Holdings, Inc., Oceantown Properties, Inc., Empire East Communities, Inc., Gilmore Property Marketing Associates, Inc., First Centro, Inc., Valle Verde Properties, Inc., Lucky Chinatown Cinemas, Inc. and New Town Land Partners, Inc. and Megaworld Land, Inc. Previously, he worked as Analyst Associate in Keppel IVI Investments. Mr. Ng obtained his bachelor's degree in Quantitative Economics from the University of Asia and the Pacific, graduating summa cum laude in 1995.

**Dennis E. Edaño**
Corporate Secretary

Mr. Edaño, 37 years old, Filipino, is the Corporate Secretary of the Company. He has been with the Company since September 2003 and currently heads the Legal & Corporate Affairs Department of the Company. Prior to his appointment as Corporate Secretary, Mr. Edaño was Assistant Corporate Secretary of the Company. Mr. Edaño has extensive experience in civil, criminal, administrative, labor and local taxation litigation, labor relations and real estate law. Prior to joining the Company, he was employed with the Yats International Ltd. as Legal Manager. Mr. Edaño obtained his bachelor's degree in Law in 1999 from the University of the Philippines and his bachelor's degree in Liberal Arts major in Philosophy from the same institution in 1995.

**Celeste Z. Sioson**
Assistant Corporate Secretary

Ms. Sioson, 37 years old, Filipino, is the Assistant Corporate Secretary of the Company. She joined the Company in October 2006 and is currently Assistant Vice President of the Legal and Corporate Affairs Department of the Company. Ms. Sioson obtained her bachelor's degree in Law from the University of the Philippines in 2002 and her bachelor's degree in Science major in Biology in 1998 from the same institution. She has extensive experience in civil, criminal, administrative, labor litigation, labor relations and real estate law. Prior to joining the Company, she was a Senior Associate at the Andres Marcelo Padernal Guerrero and Paras Law Offices and an Associate at the Ponce Enrile Reyes & Manalastas Law Offices.

**Financial Information**

Financial Statements of the Company and its subsidiaries (the "Group") as of 31 December 2013, 2012 and 2011 and Interim Financial Statements as of 31 March 2014 are attached hereto and incorporated herein by reference.

**Management's Discussion of Financial Condition and Results of Operations**

**Top Five (5) Key Performance Indicators**

The Company posted growth in sales and other revenues. Sales and marketing efforts have been intensified .The aggressive selling activities in prior years resulted to increase in current year's sales.

**Ability to repay loan obligations**

All loans obligations were promptly settled. The Group maintains good credit standing with creditor banks and has considerable standby credit facilities which can be utilized for urgent capital requirements.

**Increase in reservation sales**

The Group's product concepts, project location, flexible payment scheme and aggressive selling have contributed to the increase in reservation sales. The Marketing team constantly evaluates the needs of the market to determine the suitability of projects being offered to buyers. Most of the Group's ongoing projects are connected to mass transit system while others are conveniently located in prime areas of Metro Manila and suburbs.

**Continuous development of projects**

The Group continuously undertakes construction and development activities and has been exerting efforts to deliver its projects within the commitment timetable. The Group's Project Development team works closely with outside contractors particularly in monitoring and supervising the progress of construction.

**Landbanking**

The Group aims to acquire properties with strong growth and market potential. It has been continuously acquiring interests in properties through either outright acquisitions or joint venture arrangements with landowners. It intends to have sufficient properties for future development.

**RESULTS OF OPERATION**

**Review of 2013 versus 2012**

During the twelve-month period, the consolidated net profit amounted to P300.47 million, 27% higher than the previous year's net profit of P236.02 million. Consolidated revenues, composed of real estate sales, interest income, commissions and other revenues which posted an increase of 17% from P2.52 billion to P2.95 billion. The increase in revenue is mainly due to increase in sales from various projects.

Real Estate Sales

The Group registered Real Estate Sales of P1.71 billion for twelve months ended December 31, 2013 compared with P1.38 billion in 2012. The sales generated were derived from various projects namely, Pioneer Woodlands, Little Baguio Terraces, San Lorenzo Place, The Rochester, Kasara Urban Resort Residences, Sonoma, The Cambridge Village, California Garden Square, Greenhills Garden Square, Xavier Hills and Laguna Bel Air Projects

The Cost of Real Estate Sales amounting to P1.15 billion in 2013 and P906.26 million in 2012, as a percentage of Real Estate Sales, was 68% and 66%, respectively. The change was primarily due to the type of products sold for each year.

Gross Profit was P553.24 million during the twelve months of 2013 and P475.15 million in 2012, or 32% and 34% of Real Estate Sales, respectively. The gross profit margin varies depending on the product mix and the competitiveness of prices of each product. Realized Gross Profit as a percentage of Real Estate Sales was recorded at 41% and 30% amounting to P693.60 million and P411.49 million in 2013 and 2012, respectively.

Other Revenues

The Finance income amounting to P492.58 million and P531.44 million in 2013 and 2012 respectively, were derived mostly from in-house financing and accounts for 17% and 21% of total revenues. Commission and other income totaling P559.27 million in 2013 and P529.23 million in 2012, represents 19% and 21% of total revenues, respectively. The other income includes rentals of investment property and residential/commercial spaces in various projects, equity in net earnings from associates and those obtained from other sources.

Operating Expenses

Operating Expenses posted an increase from P1.03 billion in 2012 to P1.15 billion in 2013. Other charges/expenses include Finance Cost of P126.57 million and P96.63 million in 2013 and 2012, respectively.

**FINANCIAL CONDITION**

Review of December 31, 2013 versus December 31, 2012

Total resources of the Group as of December 31, 2013 and December 31, 2012 amounted to P32.95 billion and P31.97 billion respectively. Cash and Cash Equivalents decreased from P3.03 billion to P504.47 million. The Group remained liquid with Total Current Assets of P22.03 billion in 2013 and P21.98 billion in 2012, which accounted for 67% and 69% of the Total Assets in 2013 and 2012, while its Total Current Liabilities amounted to P5.60 billion in December 31, 2013 as compared with P7.06 billion in December 31, 2012.

The Equity increase from P22.28 billion in the previous year to P24.79 billion as of December 31, 2013 was basically due to Group's Net Income for the twelve-month period, revaluation of equity investments held by a subsidiary and the additional subscription of shares by parent company.

For the year 2013, the Group sourced its major cash requirements from internally generated funds, subscription proceeds, disposal and sale of investment in associate and partly from borrowings.

The Group utilized its funds for construction and development of projects, land acquisition, settlement of loans and expenses for operations.

Material Changes in the 2013 Interim Financial Position
(increase/decrease of 5% or more in the 2013 Financial Position)

Balance Sheets

- 83% decrease in Cash and cash equivalents
  Mainly due to construction related payments and acquisition of properties

- 13% increase in Trade and other receivables
  Due to increase in real estate sales

- 13% increase in Residential and condominium units for sale
  Due to ongoing construction and development activities

- 9% increase in Property development cost
  Due to ongoing construction and development activities

- 22% increase in Advances to related parties
  Mainly due to reclassification of account

- 14% increase in Prepayments
  Due to increase in Input Vat on purchases and prepaid taxes related to transfer of titles

- 12% increase in Land held for future development
  Mainly due to acquisition of properties

- 54% increase in Available-for-sale financial assets
  Primarily due to increase in fair market value of investment in securities held by a subsidiary

- 70% decrease in Investment in associates
  Due to sale of the company's stake in associate to its parent company

- 8% decrease in Investment properties
  Due to depreciation charges

- 6% decrease in Property and equipment-net
  Mainly due to depreciation charges

- 44% decrease in Interest-bearing loans and borrowings
  Due to payment of loans

- 54% decrease in Trade and other payables
  Pertains to payments to contractors and suppliers

- 45% decrease in Deferred gross profit on real estate sales
  Primarily due to increase in construction accomplishments

- 8% increase in Customers' deposit
  Mainly due to increase in reservation sales and collection from various projects

- 40% decrease in Advances from related parties
  Due to payment of advances from associates

- 12% decrease in Reserve for property development
  Due to continuous construction works of various projects

- 55% increase in Other current liabilities
  Primarily due to increase in retention payable applicable to contractors

- 6% increase in Deferred tax liabilities
  Mainly due to increase in income subject to tax

- 92% increase in Retirement benefit obligation
  Due to accrual of retirement obligation for the year and the effect of revised PAS 19 on Employee Benefits

Statements of Comprehensive Income

- 23% increase in Real estate sales
  Due to higher sales recognized particularly for current projects

- 140% increase in Realized gross profit on prior years' sale

Primarily due to increase in construction accomplishment of ongoing projects

- 7% decrease in Finance income
  Primarily due to varying payment terms of accounts under in-house financing

- 59% decrease in Equity in net earnings of associates
  Primarily due to sale of the company's stake in associate to its parent company

- 170% increase in Rental income
  Mainly due to rental income recognized from the existing retail component of a newly acquired property

- 27% increase in Cost of real estate sales
  Mainly due to increase in sales

- 63% decrease in Deferred gross profit on current year's sales
  Mainly due to construction accomplishments of ongoing projects

- 31% increase in Finance costs
  Mainly due to additional construction related advances

- 12% increase in Operating expenses
  Due to additional manpower and increase in other administrative/overhead expenses

- 127% increase in Tax expense
  Mainly due to increase in taxable income

For the year 2014, the projected capital expenditures (construction/development) of roughly P4.0 billion is expected to be funded by collections, borrowings and equity financing.

Fluctuations in foreign exchange rate had no adverse effect on the Group's financial conditions since the Group has very minimal importations of construction-related materials and have no foreign denominated loans.

There are no other material changes in the Group's financial position and condition (5% or more) that will warrant a more detailed discussion. Likewise, there are no material events and uncertainties known to the management that would have material impact on reported financial information and normal operations of the Group.

The nature of all revenues and expenses disclosed in the statement of comprehensive income are business related transactions and arose from the Group's continuing operations. Also, no prior period adjustment was made during any period covered by statement of financial position.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

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

The Group is aggressively marketing its products specially the new projects. It continuously offers competitive prices, more lenient payment schemes under in-house financing and has strong tie-ups with reputable banks for the financing requirements of its buyers.

**Top Five (5) Key Performance Indicators**

For 2012, the following are top key performance indicators of the Group:

| | 2012 | 2011 |
|---|---|---|
| Sales | P1.38 Billion | P983 Million |
| Net Income | P235 Million | P186 Million |
| Earnings per share | P.021 | P.017 |
| Quick Ratio * | .79:1 | .73:1 |
| Debt to Equity Ratio ** | .02:1 | .03:1 |

** Cash and Cash Equivalents+Financial Assets+Trade and Other Receivables/Total Current Liabilities*
*** Interest Bearing Loans Borrowings/ Equity*

Other indicators:

- *Increase in reservation sales*

  The Group's marketing concepts and sales strategies, project location, flexible payment scheme and aggressive selling have contributed to the increase in reservation sales. The Group's new projects are connected to mass transit system and are conveniently located in business districts of Metro Manila

- *Continuous construction and development activities*

  The Group aggressively undertakes construction and development activities and has been exerting efforts to deliver its projects within the commitment timetable.

- *Landbanking*

  The Group has been continuously acquiring interests in properties through either outright acquisitions or joint venture arrangements with landowners. It intends to have sufficient properties for development within the next 5 to 7 years.

*RESULTS OF OPERATION*

*Review of 2012 versus 2011*

During the twelve-month period, the consolidated net profit amounted to P235.35 million, 26% higher than the previous year's net income of P186.12 million. Consolidated revenues, composed of real estate sales, finance, commissions and other revenues which posted an increase of 29% from P1.95 billion to P2.52 billion. The increase in revenue is mainly due to increase in sales from various projects.

<u>Real Estate Sales</u>

The Group registered Real Estate Sales of P1.38 billion for twelve months ended December 31, 2012 compared with P.98 billion in 2011. The sales were derived from various projects namely, Pioneer Woodlands, San Lorenzo Place, The Sonoma, Little Baguio Terraces, The Cambridge Village, California Garden Square, Greenhills Garden Square and Laguna BelAir.

The Cost of Sales amounting to P906.3 million in 2012 and P746.1 million in 2011, as a percentage of Real Estate Sales, was 66% and 76%, respectively. The change was primarily due to the type of products sold for each year.

Gross Profit was P475.1 million during the twelve months of 2012 and P237.4 million in 2011, or 34% and 24% of Real Estate Sales, respectively. The gross profit margin varies depending on the product mix and the competitiveness of prices of each product. Realized Gross Profit as a percentage of Real

Estate Sales was recorded at 30% and 25% amounting to P411.5 million and P243.1 million in 2012 and 2011, respectively.

**Other Revenues**

The Finance income amounting to P490.9 million and P381.4 million in 2012 and 2011 respectively, were derived mostly from in-house financing and accounts for 19% and 20% of total revenues. Commission and other income totaling P569.8 million in 2012 and P481.7 million in 2011, represents 23% and 25% of total revenues, respectively. The other income includes rentals of investment property and residential/commercial spaces in various projects, equity in net earnings from associates and those obtained from other sources.

**Operating Expenses**

Operating Expenses posted an increase from P0.78 billion in 2011 to P1.04 billion in 2012. Corporate overhead increased due to additional expenses incurred in promoting sales, additional manpower to support the operations and general increase in commodities/services. Other charges/expenses include Finance Cost of P84.2 million and P51.6 million in 2012 and 2011, respectively.

FINANCIAL CONDITION

Review of December 30, 2012 versus December 31, 2011

Total resources of the Group as of December 31, 2012 and December 31, 2011 amounted to P31.98 billion and P25.71 billion respectively. Cash and Cash Equivalents increased from P0.83 billion to P3.03 billion. The Group remained liquid with Total Current Assets of P21.98 billion in 2012 and P17.07 billion in 2011, which accounted for 69% and 66% of the Total Assets in 2012 and 2011, while its Total Current Liabilities amounted to P7.1 billion in December 31, 2012 as compared with P4.2 billion in December 31, 2011.

The Equity increase from P18.2 billion in the previous year to P21.7 billion as of December 31, 2012 was basically due to increase in capital stock.

For the year 2012, the Group sourced its major cash requirements from internally generated funds and partly from collections of certain advances and borrowings.

The Group utilized its funds for loan repayments, construction and development of projects, and settlement of various payables and other operating expenses.

Material Changes in the 2012 Interim Financial Statements
(increase/decrease of 5% or more in the 2012 Financial Statements)

Balance Sheets

- 266% increase in Cash and Cash Equivalents
  Mainly due to receipt of proceeds from stock rights offer

- 18% increase in Trade and Other Receivables
  Mainly due to increase in sales

- 20% increase in Residential and Condominium Units for Sale
  Primarily due to ongoing construction and development activities

- 10% increase in Property Development Costs
  Mainly due to reclassification of account from Land for Future Development

- 100% decrease in Financial Assets at Fair Value through Profit or Loss
  Mainly due to deconsolidation of a subsidiary

- 11% increase in Prepayments
  Due to increase in prepaid taxes related to transfer of titles

- 43% increase in Other Current Assets
  Mainly due to increase in input vat on various purchases and construction-related payments

- 13% decrease in Advances to Landowners and Joint Venture
  Due to reclassification to Land for Future Development account

- 14% increase in Available for Sale Financial Assets
  Mainly due to increase in fair value of investment in securities held by subsidiaries

- 18% increase in Land for Future Development
  Due to additional acquisition of land

- 64% increase in Investment in Associates
  Mainly due to deconsolidation of a subsidiary

- 13% decrease in Investment Property
  Due to depreciation charges

- 100% increase in Deferred Tax Assets
  Mainly due to reclassification of account of a subsidiary

- 72% decrease in Other Non-Current Assets
  Mainly due to deconsolidation of a subsidiary

- 39% decrease in Interest-bearing Loans and Borrowings
  Due to repayment of loans

- 195% increase in Trade and Other Payables
  Various payables to contractors and suppliers due to increasing construction activities

- 17% increase in Customers' Deposits
  Mainly due to increase in reservation sales and collections from various projects

- 25% increase in Deferred Gross Profit on Real Estate Sales
  Due to increase in sales of projects with ongoing development

- 27% increase in Reserve for Property Development
  Pertains to the estimated cost to complete the development/construction of sold units

- 209% increase in Advances from Related Parties
  Mainly due to construction related advances

- 33% increase in Other Current Liabilities
  Due to increase in payable to suppliers and contractors

- 26% increase in Retirement Benefit Obligation
  Due to accrual of retirement obligation for the year

Income Statements

- 40% increase in Real Estate Sales
  Due to aggressive selling of projects

- 24% decrease in Realized Gross Profit on Prior Years' Sale
  Due to completion / increase in construction accomplishments of some projects

- 29% increase in Finance Income
  Primarily due to increase in interest income realized from accounts under in-house financing

- 5% decrease in Rental Income
  Due to expiration of contract of lease of certain tenant

- 9% increase in Other Income
  Due to increase in income from other related sources

- 407% increase in Equity in Net Earnings of an Associate
  Due to increase in earnings of an associate

- 21% increase in Cost of Real Estate Sales
  Primarily due to increase in sales

- 43% increase in Deferred Gross Profit Current Year's Sales
  Due to increase in sales of projects with ongoing development

- 35% decrease in Loss from Dilution of a Subsidiary
  Mainly due to deconsolidation of a subsidiary

- 63% increase in Finance Cost
  Due to additional interest-bearing advances

- 34% increase in Operating Expenses
  Primarily due to increase in marketing, manpower and other administrative expenses

- 115% increase in Tax Expense
  Due to increase in taxable income

For the year 2013, the projected capital expenditures (construction/development) of roughly P4.0 billion is expected to be funded by collections, borrowings and equity financing.

Fluctuations in foreign exchange rate had no adverse effect on the Group's financial conditions since the Group has very minimal importations of construction-related materials and have no foreign denominated loans.

There are no other material changes in the Group's financial position and condition (5% or more) that will warrant a more detailed discussion. Likewise, there are no material events and uncertainties known to the management that would have material impact on reported financial information and normal operations of the Group.

The nature of all revenues and expenses disclosed in the statement of comprehensive income are business related transactions and arose from the Group's continuing operations. Also, no prior period adjustment was made during any period covered by statement of financial position.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

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

The Group is aggressively marketing its products specially the new projects. It continuously offers competitive prices, more lenient payment schemes under in-house financing and has strong tie-ups with reputable banks for the financing requirements of its buyers.

**Top Five (5) Key Performance Indicators**

**For 2011, the following are the top key performance indicators:**

**Increase in Revenue**

The Company registered a significant growth in revenues. Sales and marketing efforts have been intensified .The aggressive selling activities in prior years resulted to increase in sales.

**Ability to repay loan obligations**

All loans obligations were promptly settled. The Group maintains good credit standing with creditor banks and has considerable standby credit facilities which can be utilized for urgent capital requirements.

**Increase in reservation sales**

The Group's product concepts, project location, flexible payment scheme and aggressive selling have contributed to the increase in reservation sales. The Marketing team constantly evaluates the needs of the market to determine the suitability of projects being offered to buyers. Most of the Group's ongoing projects are connected to mass transit system while others are conveniently located in prime areas of Metro Manila and suburbs.

**Continuous development of projects**

The Group continuously undertakes construction and development activities and has been exerting efforts to deliver its projects within the commitment timetable. The Group's Project Development team works closely with outside contractors particularly in monitoring and supervising the progress of construction.

**Landbanking**

The Group aims to acquire properties with strong growth and market potential. It has been continuously acquiring interests in properties through either outright acquisitions or joint venture arrangements with landowners. It intends to have sufficient properties for development within the next 5 to 10 years.

**RESULTS OF OPERATION**

**Review of 2011 versus 2010**

During the twelve-month period, the consolidated net income amounted to P186.12 million, 26% lower than the previous year's net income of P250.26 million. Consolidated revenues, composed of real estate sales, interest income, commissions and other revenues which posted a decrease of 13% from P2.25 billion to P1.95 billion.

Real Estate Sales

The Group registered Real Estate Sales of P.98 billion for twelve months ended December 31, 2011 compared with P1.07 million in 2010. The booked sales were derived from various projects namely, California Garden Square, Little Baguio Terraces, Pioneer Woodlands, The Cambridge Village, San Lorenzo Place, Kasara Urban Resort Residences, Laguna Bel Air Projects and The Sonoma.

The Cost of Sales amounting to P746.1 million in 2011 and P743.2 million in 2010, as a percentage of Real Estate Sales, was 76% and 70%, respectively. The change was primarily due to the type of products sold for each year.

Gross Profit was P237.39 million during the twelve months of 2011 and P325.24 million in 2010, or 24% and 30% of Real Estate Sales, respectively. The gross profit margin varies depending on the product mix and the competitiveness of prices of each product. Realized Gross Profit as a percentage of Real

Estate Sales was recorded at 25% and 26% amounting to P243.14 million and P279.45 million in 2011 and 2010, respectively.

Other Revenues

In 2011, the finance income amounting to P381.4 million was derived mostly from buyers' in-house financing while in 2010, the P641.4 million came from both in-house financing and the sale of certain financial assets of a subsidiary. This accounts for 20% and 28% of total revenues. On the other hand, the commission and other income totaling P588.4 million in 2011 and P542.7 million in 2010, represents 30% and 24% of total revenues, respectively. The other income includes rentals of investment property and residential/commercial spaces in various projects, and those obtained from other sources.

Operating Expenses

Operating Expenses posted a decrease from P1 billion in 2010 to P0.78 billion in 2011. Other charges/expenses include Finance Cost of P51.6 million and P75.1 million in 2011 and 2010, respectively.

**FINANCIAL CONDITION**

Review of December 30, 2011 versus December 31, 2010

Total resources of the Group as of December 31, 2011 and December 31, 2010 amounted to P25.7 billion and P27.8 billion respectively. Cash and Cash Equivalents decreased from P1.5 billion to P0.83 billion. The Group remained liquid with Total Current Assets of P17.1 billion in 2011 and P17.2 billion in 2010, which accounted for 66% and 62% of the Total Assets in 2011 and 2010, while its Total Current Liabilities amounted to P4.2 billion in December 31, 2011 as compared with P4.9 billion in December 31, 2010.

The decrease in Equity from P18.4 billion in the previous year to P18.2 billion as of December 31, 2011 was basically due to revaluation reserves applicable to equity investments.

In 2011, the Group sourced its major cash requirements from internally generated funds and partly from collection of certain advances. While in 2010, cash was sourced mostly from internal funds and partly from the discounting of its installment contract receivable.

The Group utilized its funds for construction and development of projects, land acquisition, loan payments and settlement of various payables/operating expenses.

Material Changes in the 2011 Interim Financial Statements
(increase/decrease of 5% or more in the 2011 Financial Statements)

Balance Sheets

- 45% decrease in Cash and Cash Equivalents
  Mainly due to payments to contractors, suppliers and settlement of loans

- 23% decrease in Trade and Other Receivables
  Mainly due to deconsolidation of a subsidiary

- 31% increase in Residential and Condominium Units for Sale
  Mainly due to costs attributed to the construction of ongoing projects

- 48% decrease in Property Development Costs
  Due to reclassification of account and deconsolidation of a subsidiary

- 201% increase in Advances to Related Parties
  Mainly due to deconsolidation of a subsidiary

- 100% increase in Financial Assets at Fair Value through Profit or Loss
  Mainly due to increase in fair value of investment in securities held by a subsidiary

- 11% increase in Other Current Assets
  Mainly due to input vat on increasing purchases and construction-related payments

- 43% decrease in Advances to Landowners and Joint Venture
  Mainly due to cancelled purchase transaction and deconsolidation of a subsidiary

- 20% decrease in Available for Sale Financial Assets
  Due to changes in market value of financial assets held by subsidiaries

- 18% decrease in Land for Future Development
  Due to reclassification of cost of the land to Residential and Condominium Units for Sale when the project starts its development

- 7% decrease in Investment Property
  Mainly due to depreciation charges

- 56% decrease in Other Non-Current Assets
  Mainly due to deconsolidation of a subsidiary

- 56% decrease in Interest-bearing Loans and Borrowings
  Due to payment of loans and deconsolidation of a subsidiary

- 29% decrease in Trade and Other Payables
  Mainly due to deconsolidation of a subsidiary

- 15% decrease in Customers' Deposits
  Net effect of increase in reservation sales and decrease due to booked sales and deconsolidation of a subsidiary

- 30% decrease in Deferred Gross Profit on Real Estate Sales
  Mainly due to deconsolidation of a subsidiary

- 22% decrease in Reserve for Property Development
  Due to continuous construction and development of projects

- 21% increase in Advances to Related Parties
  Mainly due to advances for construction related activities

- 8% decrease in Other Current Liabilities
  Mainly due to deconsolidation of a subsidiary

- 43% decrease in Revaluation Reserves
  Due to changes in market value of financial assets held by subsidiaries

Income Statements

- 8% decrease in Real Estate Sales
  Due to net effect of increase in sales and deconsolidation of a subsidiary

- 41% decrease in Finance Income
  Due to deconsolidation of a subsidiary and decrease in sale of marketable equity securities held by a subsidiary

- 36% increase in Commission Income
  Mainly due to additional efforts of a subsidiary in marketing the properties of related parties

- 48% increase in Realized Gross Profit on Prior Years' Sales
  Mainly due to increase in construction accomplishment of various projects

- 100% increase in Equity in Net Earnings of as Associate
  Due to deconsolidation of a subsidiary

- 15% decrease in Other Income
  Primarily due to deconsolidation of a subsidiary

- 15% decrease in Deferred Gross Profit on Current Year's Sales
  Due to increase in construction and development activities

- 31% decrease in Finance Cost
  Mainly due to payment of loans

- 100% increase in Loss from Dilution of a Subsidiary
  Mainly due to deconsolidation of a subsidiary

- 23% decrease in Operating Expenses
  Primarily due to deconsolidation of a subsidiary

- 100% decrease in Preacquisition Income
  Due to no additional acquisition of subsidiary during the year

- 33% increase in Tax Expense
  Due to increase in taxable income

For the year 2012, the projected capital expenditures (construction/development) of roughly P3.0 billion is expected to be funded by collections, borrowings and equity financing.

Fluctuations in foreign exchange rate had no significant effect on the Group's financial conditions since the Group has very minimal importations of construction-related materials and have no foreign denominated loans.

There are no other material changes in the Group's financial position and condition (5% or more) that will warrant a more detailed discussion. Likewise, there are no material events and uncertainties known to the management that would have material impact on reported financial information and normal operations of the Group.

The nature of all revenues and expenses disclosed in the statement of comprehensive income are business related transactions and arose from the Group's continuing operations. Also, no prior period adjustment was made during any period covered by statement of financial position.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

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

The Group is aggressively marketing its products specially the new projects. It continuously offers competitive prices, more lenient payment schemes under in-house financing and has strong tie-ups with reputable banks for the financing requirements of its buyers.

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

External Audit Fees and Services

The Company's external auditor, Punongbayan & Araullo, billed the amounts of Php1,600,000 in 2013 and Php1,560,000 in 2012 exclusive of VAT, in professional fees for services rendered by it for the audit of the Company's annual financial statements and services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2013 and 2012.

Apart from the foregoing, no other services were rendered or fees billed by the Company's external auditors for 2013 and 2012.

The engagement of Punongbayan & Araullo and the handling partner is approved by the Board of Directors in consultation with its Audit Committee and by the stockholders of the Company. The selection of external auditors is made on the basis of credibility, professional reputation, accreditation with the Philippine Securities and Exchange Commission, and affiliation with a reputable foreign partner. The professional fees of the external auditors of the Company are approved by the Company's Audit Committee after approval by the stockholders of the engagement and prior to the commencement of each audit season.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Company complied with SRC Rule 68(3)(b)(iv) and the Company's Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the signing partner changed after five (5) years of engagement. A two-year cooling off period shall be observed in the re-engagement of the same signing partner. In this regard, starting the year ending 31 December 2011, Mr. Nelson Dinio, one of the Audit and Assurance Partners of Punongbayan and Araullo (P&A), was designated as the signing partner for the audit of the Company's financial statements. Ms. Mailene Sigue-Bisnar, also one of the Audit and Assurance Partners of P&A, handled the audit of the Company's financial statements for the past five years from 2006 to 2010.

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 and its subsidiaries.

**The Company shall provide, without charge, to each stockholder a copy of its annual report on SEC Form 17-A, upon written request addressed to Empire East Land Holdings, Inc., Attention: Mr. Dennis E. Edaño, Corporate Secretary, 28 Floor The World Centre, 330 Sen. Gil Puyat Avenue, Makati City.**

# AUDITED FINANCIAL STATEMENTS

# OF EMPIRE EAST LAND HOLDINGS, INC.

# AND SUBSIDIARIES

## FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Empire East

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Empire East Land Holdings, Inc. and subsidiaries** (the Group) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012, in accordance with Philippine Financial Reporting Standards, 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
f. Schedule of Proceeds and Expenditures for the Recent Stock Rights Offering;

Management responsibility on the 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, including the additional supplemental information, and submits the same to the stockholders.

**Punongbayan & Araullo**, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and, 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

**ANTHONY CHARLEMAGNE C. YU**
Chief Executive Officer

**EVELYN G. CACHO**
Chief Financial Officer

SUBSCRIBED AND SWORN to me before this APR 22 2014 of 2014 affiant exhibiting to me their Community Tax Certificate No. as follows:

| | | | |
|---|---|---|---|
| Andrew L. Tan | 07668465 | January 06, 2014 | Quezon City |
| Anthony Charlemagne C. Yu | 10862568 | January 13, 2014 | Makati City |
| Evelyn G. Cacho | 10848199 | January 06, 2014 | Makati City |

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Book No. XXIII
Series of 2014

CELESTE Z. SIOSON
NOTARY PUBLIC
ROLL NO.
48369
MAKATI CITY, PHILIPPINES

Celeste Z. Sioson
Notary Public
Until 31 December 2014
ime IBP No. 924749; 01.11.13; Quezon
PTR No. 4237962; 01.13.14; Makati City
Roll No. 48369; 03.24.03
24/F The World Centre Building
330 Sen. Gil Puyat Ave., Makati City
Tel. No. 867-8018

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors

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**The Board of Directors and Stockholders**
**Empire East Land Holdings, Inc. and Subsidiaries**
***(A Subsidiary of Megaworld Corporation)***
21st Floor, The World Centre Building
330 Sen. Gil Puyat Avenue, Makati City



We have audited the accompanying consolidated financial statements of Empire East Land Holdings, 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 each of the three years in the period ended December 31, 2013, 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 Empire East Land Holdings, Inc. and Subsidiaries as at December 31, 2013 and 2012, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2013 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)

March 7, 2014

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2013 AND 2012**
***(With Corresponding Figures as of January 1, 2012)***
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|---|---|---|---|
| **A S S E T S** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 5 | **P 504,471,331** | P 3,033,222,982 | P 827,666,321 |
| Trade and other receivables - net | 6 | **2,979,566,315** | 2,590,588,931 | 2,226,231,335 |
| Advances to related parties | 22 | **2,053,791,774** | 1,687,392,195 | 1,631,182,339 |
| Residential and condominium units for sale | 7 | **12,824,659,670** | 11,342,431,118 | 9,456,554,184 |
| Property development costs | 7 | **2,902,642,906** | 2,659,616,892 | 2,423,789,010 |
| Prepayments and other current assets | 2 | **760,206,175** | 666,244,553 | 501,974,011 |
| Total Current Assets | | **22,025,338,171** | 21,979,496,671 | 17,067,397,200 |
| **NON-CURRENT ASSETS** | | | | |
| Trade and other receivables - net | 6 | **2,421,692,485** | 2,194,358,817 | 1,835,563,506 |
| Advances to landowners and joint ventures | 8 | **787,075,245** | 822,584,793 | 940,216,193 |
| Land held for future development | 9 | **4,088,300,118** | 3,662,752,341 | 3,111,506,103 |
| Investment in associates | 10 | **293,372,235** | 970,146,246 | 592,414,710 |
| Available-for-sale financial assets | 11 | **2,905,080,000** | 1,887,176,000 | 1,652,746,082 |
| Investment property - net | 12 | **185,552,516** | 202,357,339 | 233,621,784 |
| Property and equipment - net | 13 | **160,370,094** | 171,065,623 | 176,529,059 |
| Other non-current assets | 11 | **84,458,536** | 84,746,150 | 100,897,875 |
| Total Non-current Assets | | **10,925,901,229** | 9,995,187,309 | 8,643,495,312 |
| **TOTAL ASSETS** | | **P 32,951,239,400** | P 31,974,683,980 | P 25,710,892,512 |

| | Notes | 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Interest-bearing loans and borrowings | 14 | **P 71,200,342** | P 152,989,611 | P 221,870,556 |
| Trade and other payables | 15 | **438,132,758** | 948,441,503 | 321,219,814 |
| Deferred gross profit on real estate sales | 2 | **49,703,647** | 90,416,874 | 47,369,747 |
| Customers' deposits | 16 | **2,957,368,755** | 2,739,542,408 | 2,345,829,862 |
| Advances from related parties | 22 | **1,643,353,984** | 2,750,593,347 | 901,155,124 |
| Reserve for property development | 2 | **132,642,060** | 175,551,262 | 200,022,819 |
| Income tax payable | | **7,267,113** | 7,053,140 | 7,020,264 |
| Other current liabilities | 17 | **305,700,294** | 197,271,282 | 148,623,630 |
| Total Current Liabilities | | **5,605,368,953** | 7,061,859,427 | 4,193,111,816 |
| **NON-CURRENT LIABILITIES** | | | | |
| Interest-bearing loans and borrowings | 14 | **148,530,809** | 236,893,851 | 417,377,123 |
| Deferred gross profit on real estate sales | 2 | **125,286,085** | 224,930,063 | 204,313,730 |
| Reserve for property development | 2 | **815,738,947** | 906,875,613 | 654,934,198 |
| Retirement benefit obligation | 20 | **288,880,437** | 150,302,400 | 123,982,926 |
| Deferred tax liabilities - net | 21 | **1,177,480,246** | 1,114,258,209 | 1,084,714,978 |
| Total Non-current Liabilities | | **2,555,916,524** | 2,633,260,136 | 2,485,322,955 |
| Total Liabilities | | **8,161,285,477** | 9,695,119,563 | 6,678,434,771 |
| **EQUITY** | | | | |
| Capital stock | 23 | **14,803,455,238** | 13,603,455,238 | 10,908,215,404 |
| Additional paid-in capital | | **4,307,887,996** | 4,247,887,996 | 4,281,564,705 |
| Treasury stock - at cost | 23 | **( 102,106,658 )** | ( 102,106,658 ) | ( 116,233,808 ) |
| Revaluation reserves | | **1,980,515,883** | 1,030,385,774 | 452,715,833 |
| Retained earnings | 23 | **3,186,793,388** | 2,887,326,539 | 2,652,723,154 |
| Equity attributable to parent company's shareholders | | **24,176,545,847** | 21,666,948,889 | 18,178,985,288 |
| Non-controlling interest | | **613,408,076** | 612,615,528 | 853,472,453 |
| Total Equity | | **24,789,953,923** | 22,279,564,417 | 19,032,457,741 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 32,951,239,400** | P 31,974,683,980 | P 25,710,892,512 |

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

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| **REVENUES AND INCOME** | | | | |
| Real estate sales | 2 | **P 1,705,620,061** | P 1,381,413,611 | P 983,531,150 |
| Finance income | 19 | **492,576,792** | 531,444,542 | 425,850,050 |
| Commissions | 22 | **147,636,430** | 149,623,356 | 149,817,650 |
| Realized gross profit on prior years' sales | 2 | **193,650,909** | 80,660,991 | 106,695,654 |
| Rental income | 12 | **121,363,871** | 45,025,948 | 47,590,819 |
| Equity share in net earnings of associates | 10 | **34,635,124** | 83,770,918 | 16,509,892 |
| Other income | 18 | **255,633,125** | 250,814,251 | 223,381,483 |
| | | **2,951,116,312** | 2,522,753,617 | 1,953,376,698 |
| **COSTS AND EXPENSES** | | | | |
| Cost of real estate sales | 2 | **1,152,377,269** | 906,264,248 | 746,144,272 |
| Deferred gross profit on current year's sales | 2 | **53,293,704** | 144,324,450 | 100,944,119 |
| Salaries and employee benefits | 20 | **255,508,254** | 191,024,216 | 154,688,597 |
| Commissions | | **190,078,824** | 176,184,120 | 149,499,244 |
| Finance costs | 19 | **126,572,738** | 96,630,630 | 58,317,356 |
| Taxes and licenses | 12 | **125,442,799** | 39,573,594 | 26,381,737 |
| Travel and transportation | | **108,794,974** | 117,177,770 | 90,438,432 |
| Advertising and promotion | | **101,628,164** | 196,150,807 | 141,923,280 |
| Depreciation and amortization | 12, 13 | **37,015,034** | 38,394,105 | 32,696,704 |
| Loss from dilution of investment in subsidiary | 10 | - | 37,501,256 | 57,824,732 |
| Other expenses | 18 | **329,796,416** | 268,719,399 | 173,395,841 |
| Tax expense | 21 | **170,136,355** | 74,787,036 | 34,758,701 |
| | | **2,650,644,531** | 2,286,731,631 | 1,767,013,015 |
| **NET PROFIT** | | **300,471,781** | 236,021,986 | 186,363,683 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Item that will not be reclassified subsequently through profit or loss:** | | | | |
| Remeasurements on retirement benefit obligation | 20 | **( 96,792,260 )** | ( 3,699,968 ) | ( 32,155,409 ) |
| Tax income on remeasurement | 21 | **28,805,985** | 929,818 | 9,487,970 |
| | | **( 67,986,275 )** | ( 2,770,150 ) | ( 22,667,439 ) |
| **Item that will be reclassified subsequently through profit or loss:** | | | | |
| Fair value gains (losses) on available-for-sale financial assets | 11 | **1,017,904,000** | 722,892,000 | ( 391,715,040 ) |
| Reclassification of unrealized fair value gains on disposed AFS financial assets to profit and loss | | - | ( 221,000,000 ) | ( 11,591,269 ) |
| | | **1,017,904,000** | 501,892,000 | ( 403,306,309 ) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **P 1,250,389,506** | P 735,143,836 | ( P 239,610,065 ) |
| **Net profit attributable to:** | | | | |
| Parent company's shareholders | | **P 299,466,849** | P 234,603,385 | P 179,624,379 |
| Non-controlling interest | | **1,004,932** | 1,418,601 | 6,739,304 |
| | | **P 300,471,781** | P 236,021,986 | P 186,363,683 |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Parent company's shareholders | | **P 1,249,596,958** | P 733,890,393 | ( P 195,280,588 ) |
| Non-controlling interest | | **792,548** | 1,253,443 | ( 44,329,477 ) |
| | | **P 1,250,389,506** | P 735,143,836 | ( P 239,610,065 ) |
| **EARNINGS PER SHARE** | | | | |
| Basic | 24 | **P 0.021** | P 0.021 | P 0.017 |
| Diluted | 24 | **P 0.021** | P 0.021 | P 0.017 |

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

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | | Attributable to Parent Company's Shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Capital Stock | Additional Paid-in-Capital | Treasury Stock | Revaluation Reserves | Retained Earnings | Total | Non-controlling Interest | Total |
| Balance at January 1, 2013 | | | | | | | | | |
| As previously reported | 23 | **P 13,603,455,238** | **P 4,247,887,996** | **(P 102,106,658)** | **P 1,054,226,000** | **P 2,888,249,604** | **P 21,691,712,180** | **P 612,916,679** | **P 22,304,628,859** |
| Prior period adjustment, net of tax | 2 | - | - | - | **(23,840,226)** | **(923,065)** | **(24,763,291)** | **(301,151)** | **(25,064,442)** |
| As restated | | **13,603,455,238** | **4,247,887,996** | **(102,106,658)** | **1,030,385,774** | **2,887,326,539** | **21,666,948,889** | **612,615,528** | **22,279,564,417** |
| Transactions with owners: | | | | | | | | | |
| Additional subscription during the year | 23 | **1,200,000,000** | **60,000,000** | - | - | - | **1,260,000,000** | - | **1,260,000,000** |
| Total comprehensive income for the year: | | | | | | | | | |
| Net profit for the year | | - | - | - | - | **299,466,849** | **299,466,849** | **1,004,932** | **300,471,781** |
| Fair value gains on available-for-sale financial assets | | - | - | - | **1,017,904,000** | - | **1,017,904,000** | - | **1,017,904,000** |
| Remeasurements on retirement benefit obligation | 2, 20 | - | - | - | **(96,579,876)** | - | **(96,579,876)** | **(212,384)** | **(96,792,260)** |
| Tax income on remeasurement | 2, 21 | - | - | - | **28,805,985** | - | **28,805,985** | - | **28,805,985** |
| **Balance at December 31, 2013** | 23 | **P 14,803,455,238** | **P 4,307,887,996** | **(P 102,106,658)** | **P 1,980,515,883** | **P 3,186,793,388** | **P 24,176,545,847** | **P 613,408,076** | **P 24,789,953,923** |
| Balance at January 1, 2012 | 23 | | | | | | | | |
| As previously reported | | P 10,908,215,404 | P 4,281,564,705 | (P 116,233,808) | P 473,951,067 | P 2,654,315,360 | P 18,201,812,728 | P 853,612,716 | P 19,055,425,444 |
| Prior period adjustment, net of tax | 2 | - | - | - | (21,235,234) | (1,592,206) | (22,827,440) | (140,263) | (22,967,703) |
| As restated | | 10,908,215,404 | 4,281,564,705 | (116,233,808) | 452,715,833 | 2,652,723,154 | 18,178,985,288 | 853,472,453 | 19,032,457,741 |
| Transactions with owners: | | | | | | | | | |
| Additional subscription during the year | 23 | 2,695,239,834 | - | - | - | - | 2,695,239,834 | - | 2,695,239,834 |
| Direct costs in issuance of shares of stock | | - | (33,676,709) | - | - | - | (33,676,709) | - | (33,676,709) |
| Reduction in noncontrolling interest representing the shares held by a deconsolidated subsidiary | | - | - | 14,127,150 | - | - | 14,127,150 | - | 14,127,150 |
| Deconsolidation of balance related to GPMAI | | - | - | - | 78,382,933 | - | 78,382,933 | - | 78,382,933 |
| Total comprehensive income for the year: | | | | | | | | | |
| Net profit for the year | | - | - | - | - | 234,603,385 | 234,603,385 | 1,418,601 | 236,021,986 |
| Available-for-sale financial assets: | | | | | | | | | |
| Fair value gains on available-for-sale financial assets | | - | - | - | 722,892,000 | - | 722,892,000 | - | 722,892,000 |
| Reclassification to profit or loss | | - | - | - | (221,000,000) | - | (221,000,000) | - | (221,000,000) |
| Remeasurements on retirement benefit obligation | 2, 20 | - | - | - | (3,534,810) | - | (3,534,810) | (165,158) | (3,699,968) |
| Tax income on remeasurement | 2, 21 | - | - | - | 929,818 | - | 929,818 | - | 929,818 |
| Reduction in non-controlling interest | | - | - | - | - | - | - | (242,110,368) | (242,110,368) |
| Balance at December 31, 2012 | 23 | P 13,603,455,238 | P 4,247,887,996 | (P 102,106,658) | P 1,030,385,774 | P 2,887,326,539 | P 21,666,948,889 | P 612,615,528 | P 22,279,564,417 |
| Balance at January 1, 2011 | 23 | | | | | | | | |
| As previously reported | | P 10,908,215,404 | P 4,281,564,705 | (P 116,233,808) | P 826,334,027 | P 2,474,931,832 | P 18,374,812,160 | P 1,155,674,589 | P 19,530,486,749 |
| Prior period adjustment, net of tax | 2 | - | - | - | 1,286,773 | (1,833,057) | (546,284) | 5,169 | (541,115) |
| As restated | | 10,908,215,404 | 4,281,564,705 | (116,233,808) | 827,620,800 | 2,473,098,775 | 18,374,265,876 | 1,155,679,758 | 19,529,945,634 |
| Total comprehensive loss for the year: | | | | | | | | | |
| Net profit for the year | | - | - | - | - | 179,624,379 | 179,624,379 | 6,739,304 | 186,363,683 |
| Available-for-sale financial assets: | | | | | | | | | |
| Fair value losses on available-for-sale financial assets | | - | - | - | (346,355,500) | - | (346,355,500) | (45,359,540) | (391,715,040) |
| Reclassification to profit or loss | | - | - | - | (6,027,460) | - | (6,027,460) | (5,563,809) | (11,591,269) |
| Remeasurements on retirement benefit obligation | 2, 20 | - | - | - | (32,009,977) | - | (32,009,977) | (145,432) | (32,155,409) |
| Tax income on remeasurement | 2, 21 | - | - | - | 9,487,970 | - | 9,487,970 | - | 9,487,970 |
| Reduction in noncontrolling interest representing the shares held by a deconsolidated subsidiary | | - | - | - | - | - | - | (257,877,828) | (257,877,828) |
| Balance at December 31, 2011 | 23 | P 10,908,215,404 | P 4,281,564,705 | (P 116,233,808) | P 452,715,833 | P 2,652,723,154 | P 18,178,985,288 | P 853,472,453 | P 19,032,457,741 |

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

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philipine Pesos)***

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | P 470,608,136 | P 310,809,022 | P 221,122,384 |
| Adjustments for: | | | | |
| Finance income | 19 | ( 449,788,792 ) | ( 490,908,542 ) | ( 374,332,255 ) |
| Finance costs | 19 | 126,572,738 | 96,630,630 | 58,317,356 |
| Dividend income | 19 | ( 42,788,000 ) | ( 40,536,000 ) | ( 44,395,338 ) |
| Depreciation and amortization | 12, 13 | 37,015,034 | 38,394,105 | 32,696,704 |
| Loss from sale of investment in associate | 10 | 35,422,273 | - | - |
| Equity share in net earnings of associates | 10 | ( 34,635,124 ) | ( 83,770,918 ) | ( 16,509,892 ) |
| Gain on sale of property and equipment | 13 | ( 487,890 ) | - | - |
| Impairment loss | 6 | 79,820 | 18,300 | 216,547 |
| Loss from dilution of investment in subsidiary | 10 | - | 37,501,256 | 57,824,732 |
| Gain on disposal of AFS financial assets | | - | - | ( 4,401,401 ) |
| Gain on disposal of FVTPL financial assets | | - | - | ( 3,337,364 ) |
| Fair value loss on FVTPL financial assets | | - | - | 616,308 |
| Operating profit (loss) before working capital changes | | 141,998,195 | ( 131,862,147 ) | ( 72,182,219 ) |
| Increase in trade and other receivables | | ( 593,261,118 ) | ( 548,433,029 ) | ( 77,052,055 ) |
| Increase in advances to related parties | | ( 133,230,631 ) | ( 654,297,479 ) | ( 1,419,236,079 ) |
| Increase in residential and condominium units for sale | | ( 1,456,829,490 ) | ( 1,854,871,188 ) | ( 1,518,609,497 ) |
| Increase in property development costs | | ( 243,026,014 ) | ( 235,827,882 ) | ( 239,142,763 ) |
| Increase in prepayments and other current assets | | ( 93,961,622 ) | ( 172,118,201 ) | ( 129,091,319 ) |
| Decrease in advances to landowners and joint ventures | | 35,509,548 | 117,631,400 | 424,047,714 |
| Increase in land held for future development | | ( 425,547,777 ) | ( 551,246,238 ) | ( 156,817,146 ) |
| Decrease in other non-current assets | | 287,613 | 16,151,725 | 152,627,038 |
| Increase (decrease) in trade and other payables | | ( 510,367,292 ) | 630,744,307 | ( 330,753,633 ) |
| Increase (decrease) in deferred gross profit on real estate sales | | ( 140,357,205 ) | 63,663,460 | ( 109,998,571 ) |
| Increase (decrease) in customers' deposits | | 217,826,347 | 393,712,546 | ( 270,542,910 ) |
| Increase (decrease) in reserve for property development | | ( 134,045,868 ) | 227,469,858 | 85,361,659 |
| Increase in other current liabilities | | 108,429,012 | 35,141,875 | 1,445,354,150 |
| Increase in retirement benefit obligation | | 32,328,471 | 14,820,055 | 10,910,444 |
| Cash used in operations | | ( 3,194,247,831 ) | ( 2,649,320,938 ) | ( 2,205,125,187 ) |
| Interest received | | 301,396,245 | 291,250,824 | 191,398,663 |
| Cash paid for income taxes | | ( 77,894,360 ) | ( 52,039,412 ) | ( 71,010,179 ) |
| Net Cash Used in Operating Activities | | ( 2,970,745,946 ) | ( 2,410,109,526 ) | ( 2,084,736,703 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from sale of investment in shares of stock | 10 | 471,236,862 | - | - |
| Dividends received | 19 | 42,788,000 | 40,536,000 | 44,395,338 |
| Interest received | 19 | 17,228,413 | 24,447,560 | 19,856,160 |
| Acquisitions of property and equipment | 13 | ( 11,815,910 ) | ( 16,125,846 ) | ( 25,849,730 ) |
| Proceeds from sale of property and equipment | 13 | 2,847,666 | - | - |
| Proceeds from disposal of AFS financial assets | | - | - | 379,297,342 |
| Acquisition of AFS financial assets | | - | - | ( 365,726,942 ) |
| Acquisition of financial assets at FVTPL | | - | - | ( 88,355,740 ) |
| Proceeds from disposal of financial assets at FVTPL | | - | - | 88,168,716 |
| Decrease in AFS financial assets | | - | - | 62,514,618 |
| Net Cash From Investing Activities | | 522,285,031 | 48,857,714 | 114,299,762 |
| *Balance Carried Forward* | | ( P 2,448,460,915 ) | ( P 2,361,251,812 ) | ( P 1,970,436,941 ) |

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| *Balance Brought Forward* | | ( P 2,448,460,915 ) | ( P 2,361,251,812 ) | ( P 1,970,436,941 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payments of advances from related parties | 22 | ( 1,286,978,539 ) | ( 80,417,177 ) | ( 73,792,054 ) |
| Proceeds from issuance of shares of stock | 23 | 1,260,000,000 | 2,695,239,834 | - |
| Payments of interest-bearing loans and borrowings | 14 | ( 170,152,311 ) | ( 249,364,217 ) | ( 349,967,275 ) |
| Proceeds from advances from related parties | 22 | 142,239,176 | 1,979,020,494 | 1,979,400,775 |
| Interest paid | | ( 25,399,062 ) | ( 43,776,313 ) | ( 76,122,701 ) |
| Direct costs in issuance of shares of stock | 23 | - | ( 33,676,709 ) | - |
| Net Cash From (Used in) Financing Activities | | ( 80,290,736 ) | 4,267,025,912 | 1,479,518,745 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | ( 2,528,751,651 ) | 1,905,774,100 | ( 490,918,196 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 3,033,222,982 | 827,666,321 | 1,491,611,105 |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF DECONSOLIDATED SUBSIDIARIES** | 10 | - | ( 195,406,748 ) | ( 132,535,045 ) |
| **PREACQUISITION CHANGES IN CASH AND CASH EQUIVALENTS OF DECONSOLIDATED SUBSIDIARY** | 10 | - | 495,189,309 | ( 40,491,543 ) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | P 504,471,331 | P 3,033,222,982 | P 827,666,321 |

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

In the normal course of business, the Group enters into non-cash transactions which include the following:

- Capitalization of interest expense as part of Residential and condominium units for sales account (see Note 7) and
- Settlements of Advances to Landowners through receipt of certain parcels of land and reclassification to real estate assets upon full payment (see Note 8).

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

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

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

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

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

| Subsidiaries/ Associates | Explanatory Notes | Percentage of Ownership 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Subsidiaries: | | | | |
| Eastwood Property Holdings, Inc. (EPHI) | (a) | **100%** | 100% | 100% |
| Valle Verde Properties, Inc. (VVPI) | (b) | **100%** | 100% | 100% |
| Sherman Oak Holdings, Inc. (SOHI) | (c) | **100%** | 100% | 100% |
| Empire East Communities, Inc. (EECI) | (d) | **100%** | 100% | 100% |
| Laguna BelAir School, Inc. (LBASI) | (e) | **73%** | 73% | 73% |
| Sonoma Premier Land, Inc. (SPLI) | (f) | **60%** | 60% | 60% |
| Gilmore Property Marketing Associate, Inc. (GPMAI) | (g) | **-** | - | 52% |
| Associates: | | | | |
| GPMAI | (g) | 47% | 47% | - |
| SPI | (h) | **-** | 33% | 33% |

Explanatory Notes:

(a) Subsidiary incorporated in 1996 and serves as the marketing arm of the Company for the latter's projects, as well as those of other related parties.

(b) Subsidiary incorporated in 2006; additional shares were acquired in November 2008 through assignment of shares from a third party.

(c) Subsidiary incorporated in 2007; shares acquired through assignment of shares from Yorkshire Holdings Inc., a related party, in January 2008.

(d) Subsidiary incorporated in 2008 to primarily engage in the purchase, development, sale and lease of real properties but is currently engaged in the marketing of real estate properties.

(e) Subsidiary incorporated in 1996 to primarily engage in operating a school for primary and secondary education.

(f) Subsidiary incorporated in 2007 as a holding entity to primarily engage in the development and marketing of all kinds of real estate. Additional shares were acquired from First Centro, Inc. in March and June 2008.

(g) Entity incorporated in 1996. In 2012, the entity was deconsolidated and treated as an associate of the Company.

(h) Entity incorporated in 1997. In 2011, the entity was deconsolidated and treated as an associate of the Company. In 2013, the Company's remaining ownership interest was sold to Megaworld Corporation (Megaworld or the parent company).

The place of incorporation, which is similar with the place of operation of the Company's subsidiaries and affiliates, are located at 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City except EPHI, LBASI and SPI. The place of incorporation as well as the principal place of business of EPHI, LBASI and SPI are summarized below.

*(a)* EPHI – 28th Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City
*(b)* LBASI – Brgy. Don Jose, Sta. Rosa, Laguna
*(c)* SPI – Ground Floor, One World Square Bldg., No. 2 Upper Mc Kinley Road, Town Center, Fort Bonifacio Taguig City

Prior to March 25, 2011, the Company held 80% ownership interest in SPI and, thus, was a consolidated subsidiary in 2010. On March 25, 2011, the percentage ownership of the Company over SPI was reduced to 33% due to the subscription by Megaworld to SPI's increase in authorized capital stock. Accordingly, SPI was treated as an associate in 2012 and 2011. On June 7, 2013, the Company sold its 33% ownership interest in SPI to Megaworld. A total of 315,000,008 shares were sold for a total consideration of P471.2 million (see Note 10.1). As a result of the sale, SPI ceased to be an associate of the Company.

On December 26, 2012, GPMAI issued additional 5,000,000 shares of stock at P1 par value which were purchased by a third party. As a result, the percentage of ownership of the Company over GPMAI was reduced from 52% to 47%. In addition, the Company is no longer part of the Board of Directors (BOD) of GPMAI, thereby losing its control over the financial and operating policies of GPMAI. GPMAI is now an associate.

In prior years, the Company increased its ownership interest in VVPI and LBASI. This resulted to the recognition of goodwill which amounted to P78.3 million as of December 31, 2013 and 2012, and shown as part of Other non-current assets account in the consolidated statements of financial position.

Starting June 2011, the Company became a subsidiary of Megaworld. Megaworld is engaged in the development of large scale mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. The parent company is presently engaged in property-related activities, such as, project design, construction and property management. Alliance Global Group, Inc. (AGI) is the Company's ultimate parent company. AGI is a holding company with diversified investments in food and beverage, real estate, tourism-entertainment and gaming and quick service restaurant businesses. The shares of common stock of both Megaworld and AGI are listed at the PSE.

The registered office of the Company is located at the 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City. Megaworld's registered office is on the 28th Floor of the same building. On the other hand, AGI's registered office is located at the 7th Floor 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriquez Jr. Avenue, Bagumbayan, Quezon City. These entities' registered offices are also their respective principal places of business.

The consolidated financial statements of Empire East Land Holdings, Inc. and Subsidiaries (the Group) for the year ended December 31, 2013 (including the comparative financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012) were authorized for issue by the Company's BOD on March 7, 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 and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

### *2.1 Basis of Preparation of Consolidated Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (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 expenses in a single statement of comprehensive income.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. 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 Group presented a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Certain accounts in the 2012 and 2011 consolidated financial statements were reclassified to conform with the 2013 consolidated financial statement presentation and classification.

*(c) Functional and Presentation Currency*

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

Items included in the 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 are Relevant to the Company*

In 2013, the Group adopted for the first time the following new PFRS, revisions, amendments and annual improvements thereto 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 |
| Consolidation Standards | | |
| 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 PFRS 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 new, revised and 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 PFRS: (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 financial statements for December 31, 2012 and the corresponding figures as of 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 | As Restated |
| *Changes in liabilities:* | | | |
| Retirement benefit obligation | P 114,965,381 | P 35,337,019 | P 150,302,400 |
| Deferred tax liabilities - net | 1,124,530,786 | ( 10,272,577) | 1,114,258,209 |
| Net increase in liabilities | | P 25,064,442 | |
| *Changes in components of equity:* | | | |
| Revaluation reserves, net of tax | P 1,016,726,000 | (P 23,840,226) | P 992,885,774 |
| Retained earnings | 2,888,249,604 | ( 923,065) | 2,887,326,539 |
| Non-controlling interest | 612,916,679 | ( 301,151) | 612,615,528 |
| Net decrease in equity | | (P 25,064,442) | |

| | January 1, 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
| *Changes in liabilities:* | | | |
| Retirement benefit obligation | P 91,390,515 | P 32,592,411 | P 123,982,926 |
| Deferred tax liabilities - net | 1,094,339,686 | ( 9,624,708) | 1,084,714,978 |
| Net increase in liabilities | | P 22,967,703 | |
| *Changes in components of equity:* | | | |
| Revaluation reserves, net of tax | P 473,951,067 | (P 21,235,234) | P 452,715,833 |
| Retained earnings | 2,654,315,360 | ( 1,592,206) | 2,652,723,154 |
| Non-controlling interest | 853,612,716 | ( 140,263) | 853,472,453 |
| Net decrease in equity | | (P 22,967,703) | |

The effects of the restatement in the 2012 and 2011 consolidated statements of comprehensive income are presented below.

| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
|---|---|---|---|
| **2012** | | | |
| *Changes in profit or loss:* | | | |
| Salaries and employee benefits | P 199,779,027 | (P 8,754,811) | P 191,024,216 |
| Finance costs | 88,831,180 | 7,799,450 | 96,630,630 |
| Tax expense | 74,505,086 | 281,950 | 74,787,036 |
| | | (P 673,411) | |
| *Change in other comprehensive income:* | | | |
| Remeasurements on retirement benefit obligation – net of tax | P - | (P 2,770,150) | (P 2,770,150) |
| *Changes in total comprehensive income attributable to:* | | | |
| Company's shareholders | P 735,826,244 | (P 1,935,851) | P 733,890,393 |
| Non-controlling interest | 1,414,331 | ( 160,888) | 1,253,443 |
| | | (P 2,096,739) | |

| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
|---|---|---|---|
| **2011** | | | |
| *Changes in profit or loss:* | | | |
| Salaries and employee benefits | P 161,749,075 | (P 7,060,478) | P 154,688,597 |
| Finance costs | 51,600,951 | 6,716,405 | 58,317,356 |
| Tax expense | 34,655,479 | 103,222 | 34,758,701 |
| | | (P 240,851) | |
| *Change in other comprehensive income:* | | | |
| Remeasurements of retirement benefit obligation – net of tax | P - | (P 22,667,439) | (P 22,667,439) |
| *Changes in total comprehensive loss attributable to:* | | | |
| Company's shareholders | (P 172,999,432) | (P 22,281,156) | (P 195,280,588) |
| Non-controlling interest | ( 44,184,045) | ( 145,432) | ( 44,329,477) |
| | | (P 22,426,588) | |

The reclassifications of certain line items in the statements of financial position as of December 31, 2012 and January 1, 2012 have the following effects on the 2012 and 2011 consolidated statements of cash flows under operating activities:

| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
|---|---|---|---|
| **2012** | | | |
| Profit before tax | P 309,853,661 | P 955,361 | P 310,809,022 |
| Finance costs | 88,831,180 | 7,799,450 | 96,630,630 |
| Increase in retirement benefit obligation | 23,574,866 | ( 8,754,811) | 14,820,055 |
| | | P - | |
| **2011** | | | |
| Profit before tax | P 220,778,311 | P 344,073 | P 221,122,384 |
| Finance costs | 51,600,951 | 6,716,405 | 58,317,356 |
| Increase in retirement benefit obligation | 17,970,922 | ( 7,060,478) | 10,910,444 |
| | | P - | |

The adoption of PAS 19 (Revised) did not have a material impact on the Company's basic and diluted earnings per share (see Note 24).

(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 details and outstanding balances of financial assets and financial liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements are disclosed in Note 27.2.

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

This package of consolidation, joint arrangements, associates and disclosure 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 determines 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 controls when this 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 while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method.

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 PAS 27 (Revised) with respect to principal place of business and incorporation of the significant subsidiaries and associates (see Note 1).

(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. This 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 additional disclosures presented in Notes 12 and 28, 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 Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Group:

(a) 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 information in 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 years' 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.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.

(c) 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 has been recognizing the effect of distributions to holders of equity investments and transaction costs of an equity transaction in accordance with PAS 12.

*(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 financial statements:

| | | |
|---|---|---|
| PAS 34 (Amendment) | : | Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities |
| PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Government Loans, and Repeated Application of PFRS 1 and Borrowing Cost |
| 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 interpretations 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 financial statements:

(i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from 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 provided characteristics of a gross settlement system 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 its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.

(iv) PFRS 9, *Financial Instruments: Classification and Measurement*. 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 in 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 International Financial Reporting Standard (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 9 and 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. 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.

(v) Philippine 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 Securities and Exchange Commission 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.

(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 amendments 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)*

*(a)* PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

*(b)* PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that 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.

*(c)* PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

*(d)* 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)*

*(a)* PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

*(b)* 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 definitions of financial assets or financial liabilities as defined in PAS 32.

*(c)* 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 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.

### *2.3 Basis of Consolidation and Interests in Joint Ventures*

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

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

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

*(a)* *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when it exercises power over the entity, 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. The Company reassesess whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company, 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 Company recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

*(b) Investments in Associates*

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

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

All subsequent changes to the ownership interest in the equity of the 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 Earnings of Associates in the Group's consolidated statement of comprehensive income.

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

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

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

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

*(c) Transactions with Non-controlling Interests*

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

When the Company 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 Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

*(d) Interests in Joint Ventures*

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

### *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 available-for-sale (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 transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs are charged as expense and included in the profit or loss.

Currently, the Group's financial assets are categorized as financial assets at FVTPL, loans and receivables and AFS financial assets. A more detailed description of the financial assets is as follows:

*(a) Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term. In 2011, financial assets at FVTPL amounting to P5.8 million (nil in 2012 and 2013) is presented as part of Prepayments and Other Current Assets in the consolidated statement of financial position.

*(b) 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 end of the reporting period which are classified as non-current assets.

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group 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 cash flows discounted at the effective interest rate (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.

*(c)* *AFS Financial Assets*

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

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity. 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 loss is 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 was recognized.

The fair value of AFS financial assets is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS financial assets are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

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

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in consolidated profit or loss when received, regardless of how the related carrying amount of the 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 Prepayments and Other Assets*

Prepayments and other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the 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 other non-current assets.

### *2.6 Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

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

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

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

Fully depreciated 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.

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

The residual values 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 and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated profit or loss in the year the item is derecognized.

### *2.7 Investment Property*

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

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

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

Fully depreciated 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.

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

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 consolidated profit or loss in the year the item is derecognized.

### *2.8 Financial Liabilities*

Financial liabilities which include Interest-bearing Loans and Borrowings, Trade and Other Payables (except tax-related liabilities), Advances from Related Parties and Other Current Liabilities (excluding deferred income), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in the consolidated profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

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

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

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

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the 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 consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### *2.9 Business Combinations*

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

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

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

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

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

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

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

### *2.10 Offsetting of Financial Instruments*

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

### *2.11 Provisions and Contingencies*

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

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

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

### *2.12 Real Estate Transactions and Revenue and Expense Recognition*

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title to the property to the Group, are charged to the Land Held for Future Development account. These costs are reclassified to the Property Development Costs account as soon as the Group starts the development of the property. Related property development costs are then accumulated in this account. Once revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related costs are reclassified to Residential and Condominium Units for Sale. Interest on certain loans incurred during the development of the real estate properties are also capitalized as part of the Property Development Costs or Residential and Condominium Units for Sale account (see Note 2.19).

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

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

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

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

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

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

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

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

*(b)* *Rendering of services* – Revenue is recognized upon substantial rendition of the services required.

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

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

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

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

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

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

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known.

### *2.13 Commissions*

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

### *2.14 Leases*

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Leases which the Group does not substantially transfer to the lessee all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease receipts are recognized as income in the consolidated profit or loss on a straight-line basis over the lease term. Indirect costs incurred by the Group in negotiating and arranging for an operating lease is added to the carrying amount of the leased asset and recognized as expense over the lease term (see Note 2.12).

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

### *2.15 Segment Reporting*

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

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

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

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, is 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;
- research costs, if any, relating to new business activities; and
- revenue and costs 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.

### *2.16 Foreign Currency Transactions and Translation*

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

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

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

The Group's interest in joint ventures, investment property, property and equipment, investment in associates, goodwill and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at 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 amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company'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 provides post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

*(a) 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 pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated at least every two years 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 & Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

*(b) Defined Contribution Plans*

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

*(c) Compensated Absences*

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

### *2.19 Borrowing Costs*

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

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

### *2.20 Income Taxes*

Tax expense recognized in consolidated 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. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of 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 deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in 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 consolidated other comprehensive income or directly in equity, respectively.

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

### *2.21 Related Party Transactions and Relationships*

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) the Group's retirement fund; and, (d) 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 Earnings Per Share*

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

Diluted earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Group does not have dilutive potential shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

### *2.23 Equity*

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

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

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

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

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

### *2.24 Events After the End of the Reporting Period*

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

### *3.1 Critical Judgments in Applying Accounting Policies*

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

*(a) Impairment of AFS Financial Assets*

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

The Group's AFS financial assets are not impaired as of December 31, 2013 and 2012. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

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

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely 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 Group's main line of business while land held 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 use in the Group's main line of business or 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 use in the Group's main line of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

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

*(c) Distinction between Operating and Finance Leases*

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

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

*(d) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant contingencies are presented in Note 25.

### *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 financial year:

*(a) Determining Net Realizable Value of Residential and Condominium Units for Sale, Property Development Costs and Land Held for Future Development*

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

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

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

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

The carrying amounts of investment property and property and equipment are analyzed in Notes 12 and 13, respectively. Based on management's assessment as at December 31, 2013 and 2012, there is no change in estimated useful lives of property and equipment and investment property during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(c) Impairment of Trade and Other Receivables and Advances to Landowners and Joint Ventures*

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 counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6. No impairment losses were recognized on the Group's Advances to Landowners and Joint Ventures (see Note 8).

*(d) Fair Value Measurements of Financial Instruments*

The Group carries certain financial assets at fair value, which are classified as Level 1 fair values as these investments are traded in the stock market. As such, no significant accounting estimates and judgment was made on its FVTPL and AFS financial assets (see Note 11). Meanwhile, certain AFS financial assets amounting to P2.7 million as of December 31, 2012 and 2011 are measured at cost since there are no available market values on these instruments.

*(e) 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.

The carrying values of the Group's deferred tax assets as of December 31, 2013 and 2012 are disclosed in Note 21.

*(f) Impairment of Non-financial Assets*

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 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.

Based on management evaluation, no impairment losses were recognized on the Group's non-financial assets.

*(g) Valuation of Post-Employment Defined Benefit*

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation are presented in Note 20.2.

*(h) Revenue Recognition Based on 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 to date as a proportion of the total budgeted cost of the project. Should the proportion of the percentage of completed projects differ by 10% from management's estimates, the amount of revenue recognized in 2013 and 2012 would have increased by P28.9 million and P33.8 million, respectively, if percentages of completion were increased by 10%. Consequently, revenue would have decreased by P56.1 million and P47.45 million in 2013 and 2012, respectively, if the percentages of completion were decreased by 10%.

*(i) Basis for Revenue Recognition Benchmark*

As discussed in Note 2.12, the Group recognizes its revenue in full when a certain percentage of the net contract price is received. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history of customers and number of back out sales in prior years. A buyer's interest in the property is considered to have vested when a defined percentage of the net contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

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

Investment Property is measured using the cost model. The fair value disclosed in Note 12 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 investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting periods.

The principal assumptions underlying management's estimation of fair value are those related to: 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.

## 4. SEGMENT REPORTING

### *4.1 Business Segments*

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

### *4.2 Segment Assets and Liabilities*

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

### *4.3 Intersegment Transactions*

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

### *4.4 Analysis of Segment Information*

The following tables present the revenue and profit information regarding industry segments for the years ended December 31, 2013, 2012 and 2011 and certain assets and liabilities information regarding industry segments as of December 31, 2013 and 2012.

| | High Rise Projects | | | Horizontal Projects | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | **2013** | 2012 | 2011 | **2013** | 2012 | 2011 |
| **REVENUES** | | | | | | | | | |
| Real estate sales | **P 1,393,785,610** | P 1,134,391,661 | P 785,205,409 | **P 311,834,451** | P 247,021,950 | P 198,325,741 | **P 1,705,620,061** | P 1,381,413,611 | P 983,531,150 |
| Realized gross profit on prior years' sale | **111,914,555** | 54,887,331 | 69,382,884 | **81,736,354** | 25,773,660 | 37,312,770 | **193,650,909** | 80,660,991 | 106,695,654 |
| Finance income | **335,211,278** | 323,695,054 | 213,588,625 | **( 16,461,227)** | 29,823,710 | 39,839,934 | **318,750,051** | 353,518,764 | 253,428,559 |
| Rental income | **99,522,551** | 36,497,835 | 33,187,251 | **18,805,389** | 4,743,136 | 11,085,103 | **118,327,940** | 41,240,971 | 44,272,354 |
| Other income | **139,366,064** | 163,610,459 | 83,374,549 | **48,657,616** | 29,548,470 | 69,143,939 | **188,023,680** | 193,158,929 | 152,518,488 |
| Total revenues | **2,079,800,058** | 1,713,082,340 | 1,184,738,718 | **444,572,583** | 336,910,926 | 355,707,487 | **2,524,372,641** | 2,049,993,266 | 1,540,446,205 |
| **COSTS AND OTHER OPERATING EXPENSES** | | | | | | | | | |
| Cost of real estate sales | **988,400,529** | 739,162,660 | 592,804,308 | **163,976,740** | 167,101,588 | 153,339,964 | **1,152,377,269** | 906,264,248 | 746,144,272 |
| Deferred gross profit on current year's sales | **37,359,174** | 94,773,101 | 82,822,261 | **15,934,530** | 49,551,349 | 18,121,858 | **53,293,704** | 144,324,450 | 100,944,119 |
| Salaries and employee benefits | **-** | 5,486 | 10,515 | **471,320** | 596,865 | 729,833 | **471,320** | 602,351 | 740,348 |
| Commissions | **103,382,383** | 96,922,750 | 79,013,904 | **42,622,296** | 24,679,728 | 15,806,726 | **146,004,679** | 121,602,478 | 94,820,630 |
| Rentals | **102,227,942** | 65,760,076 | 20,824,974 | **16,087,532** | 32,881,024 | 7,459,293 | **118,315,474** | 98,641,100 | 28,284,267 |
| Taxes and Licenses | **29,025,731** | 15,929,200 | 17,723,265 | **21,537,594** | 17,001,389 | 2,515,323 | **50,563,325** | 32,930,589 | 20,238,588 |
| Advertising and promotion | **42,673,406** | 103,827,731 | 78,144,745 | **31,426,143** | 29,965,682 | 10,511,547 | **74,099,549** | 133,793,413 | 88,656,292 |
| Association dues | **18,927,486** | 22,608,540 | 27,130,979 | **4,526,170** | 7,441,309 | - | **23,453,656** | 30,049,849 | 27,130,979 |
| Others | **21,167,818** | 17,119,555 | 11,758,059 | **13,440,746** | 12,232,515 | 8,201,986 | **34,608,564** | 29,352,070 | 19,960,045 |
| Cost and other operating expenses excluding depreciation and amortization | **1,343,164,469** | 1,156,109,099 | 910,233,010 | **310,023,071** | 341,451,449 | 216,686,530 | **1,653,187,540** | 1,497,560,548 | 1,126,919,540 |
| Depreciation and amortization | **3,395,290** | 3,674,999 | 3,702,291 | **14,061,920** | 14,209,915 | 14,215,688 | **17,457,210** | 17,884,914 | 17,917,979 |
| | **1,346,559,759** | 1,159,784,098 | 913,935,301 | **324,084,991** | 355,661,364 | 230,902,218 | **1,670,644,750** | 1,515,445,462 | 1,144,837,519 |
| **SEGMENT OPERATING PROFIT (LOSS)** | **P 733,240,299** | P 553,298,242 | P 270,803,417 | **P 120,487,592** | (P 18,750,438) | P 124,805,269 | **P 853,727,891** | P 534,547,804 | P 395,608,686 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | | | | |
| Segment assets | **P14,074,551,368** | P12,115,201,349 | | **P 4,990,407,147** | P 4,884,277,328 | | **P19,064,958,515** | P16,999,478,677 | |
| Segment liabilities | **798,100,219** | 808,553,884 | | **325,270,520** | 589,219,928 | | **1,123,370,739** | 1,397,773,812 | |

Sales to any of the Company's major customers did not exceed 10% of the Company's revenues in all of the years presented.

### *4.5 Reconciliations*

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Revenues** | | | |
| Total segment revenues | **P 2,524,372,641** | P 2,049,993,266 | P 1,540,446,205 |
| Unallocated revenues: | | | |
| Rental income from investment property | **3,035,931** | 3,784,977 | 3,318,465 |
| Finance income | **173,826,741** | 177,925,778 | 172,421,491 |
| Commissions | **147,636,430** | 149,623,356 | 149,817,650 |
| Equity share in net earnings of associate | **34,635,124** | 83,770,918 | 16,509,892 |
| Other income | **67,609,445** | 57,655,322 | 70,862,995 |
| | **426,743,671** | 472,760,351 | 412,930,493 |
| Revenues as reported in profit or loss | **P 2,951,116,312** | P 2,522,753,617 | P 1,953,376,698 |
| **Profit or loss** | | | |
| Segment operating profit | **P 853,727,891** | P 534,547,804 | P 395,608,686 |
| Other unallocated income | **426,743,671** | 472,760,351 | 412,930,493 |
| Other unallocated expense | **( 809,863,426)** | ( 696,499,133) | ( 587,416,795) |
| Profit before tax as reported in profit or loss | **P 470,608,136** | P 310,809,022 | P 221,122,384 |
| **Assets** | | | |
| Segment assets | **P 19,064,958,515** | P16,999,478,677 | |
| Unallocated assets: | | | |
| Cash and cash equivalents | **504,471,331** | 3,033,222,982 | |
| Trade and other receivables | **2,063,602,861** | 1,787,517,081 | |
| Advances to related parties | **2,053,791,774** | 1,687,392,195 | |
| Prepayments and other current assets | **760,206,175** | 666,244,553 | |
| Advances to landowners and joint ventures | **787,075,245** | 822,584,793 | |
| Investment in associates | **293,372,235** | 970,146,246 | |
| Available for sale financial assets | **2,905,080,000** | 1,887,176,000 | |
| Property and equipment – net | **160,370,094** | 171,065,623 | |
| Land held for future development | **4,088,300,118** | 3,662,752,341 | |
| Investment property – net | **185,552,516** | 202,357,339 | |
| Other non-current assets | **84,458,536** | 84,746,150 | |
| | **13,886,280,885** | 14,975,205,303 | |
| Total assets as reported in the consolidated statements of financial position | **P 32,951,239,400** | P31,974,683,980 | |

| | 2013 | 2012 |
|---|---|---|
| **Liabilities** | | |
| Segment liabilities | **P 1,123,370,739** | P 1,397,773,812 |
| Unallocated liabilities: | | |
| Interest-bearing loans and borrowings | **219,731,151** | 389,883,462 |
| Customers' deposits | **2,957,368,755** | 2,739,542,408 |
| Trade and other payables | **438,132,758** | 948,441,503 |
| Advances from related parties | **1,643,353,984** | 2,750,593,347 |
| Income tax payable | **7,267,113** | 7,053,140 |
| Other current liabilities | **305,700,294** | 197,271,282 |
| Deferred tax liabilities – net | **1,177,480,246** | 1,114,258,209 |
| Retirement benefit obligation | **288,880,437** | 150,302,400 |
| | **7,037,914,738** | 8,297,345,751 |
| Total liabilities as reported in the consolidated statements of financial position | **P 8,161,285,477** | P 9,695,119,563 |

## 5. CASH AND CASH EQUIVALENTS

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

| | 2013 | 2012 |
|---|---|---|
| Cash on hand and in banks | **P 410,026,705** | P 296,890,366 |
| Short-term placements | **94,444,626** | 2,736,332,616 |
| | **P 504,471,331** | P 3,033,222,982 |

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

Peso-denominated short-term placements are made for varying periods of up to 60 days in 2013, 91 days in 2012 and 60 days in 2011 and earn annual effective interest ranging from 0.25% to 3.00% in 2013, 0.50% to 4.25% in 2012 and 0.50% to 4.75% in 2011. Dollar-denominated short-term placements are made for varying periods of up to 118 days in 2013, 93 days in 2012 and 98 days in 2011 and earn annual effective interest ranging from 0.50% to 2.00% in 2013, 0.25% to 1.50% in 2012, and 0.88% to 2.50% in 2011 (see Note 19.1).

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

| | 2013 | 2012 |
|---|---|---|
| Current: | | |
| Trade receivables | **P 1,571,441,013** | P 1,524,376,795 |
| Advances to suppliers and contractors | **865,590,629** | 576,377,414 |
| Interest receivable | **378,930,113** | 419,696,416 |
| Rent receivable | **66,977,121** | - |
| Others | **97,186,469** | 70,656,804 |
| | **2,980,125,345** | 2,591,107,429 |
| Allowance for impairment | **( 559,030)** | ( 518,498) |
| | **2,979,566,315** | 2,590,588,931 |
| Non-current: | | |
| Trade receivables | **2,313,206,474** | 1,948,297,003 |
| Refundable security deposits | **44,665,660** | 177,844,987 |
| Others | **63,820,351** | 68,216,827 |
| | **2,421,692,485** | 2,194,358,817 |
| | **P5,401,258,800** | P4,784,947,748 |

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

A reconciliation of the allowance for impairment on current and non-current trade and other receivables at the beginning and end of 2013 and 2012 is shown below.

| | 2013 | 2012 |
|---|---|---|
| Balance at beginning of year | **P 518,498** | P 611,613 |
| Impairment losses during the year | **79,820** | 18,300 |
| Recovery of accounts previously provided with allowance | **( 39,288)** | ( 111,415) |
| Balance at end of year | **P 559,030** | P 518,498 |

Trade receivables of the Group are either interest-bearing or noninterest-bearing. The installment period of interest-bearing sales contracts ranges from 2 to 15 years. Interest-bearing receivables bear nominal interest rates, which are equal to the effective interest rates ranging from 14% to 19% in 2013 and 14% to 18% in 2012 and 2011. The related finance income earned on those sales contracts amounting to P267.5 million in 2013, P319.2 million in 2012 and P216.4 million in 2011 are reported as part of Finance Income in the consolidated statements of comprehensive income (see Note 19.1).

The installment period of noninterest-bearing sales contracts ranges from 3 to 5 years. The fair values of the noninterest-bearing trade receivables as of December 31, 2013 and 2012 were determined by calculating the present value of the cash flows anticipated to be received until the end of the installment term using 10% discount rate. Amortization of day one loss amounting to P51.3 million in 2013, P34.4 million in 2012 and P37.2 million in 2011 are presented as part of Finance Income in the consolidated statements of comprehensive income (see Note 19.1).

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

The Group partially finances its real estate projects and other business undertakings through discounting of its trade receivables on a with-recourse basis with certain local banks. The carrying amount of discounted trade receivables amounted to P220.0 million and P333.0 million as of December 31, 2013 and 2012, respectively, while the related liability is presented as part of Bank Loans under Interest-bearing Loans and Borrowings in the consolidated statements of financial position (see Note 14.1).

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

Refundable security deposits include various deposits to third parties for electrical and other utilities equipment needed in the development of housing projects, i.e., condominium communities and house and lot packages. Such deposits are only refundable upon completion of the projects or upon return of the equipment used. However, the exact date or period of completion of projects or return of equipment is indeterminable. Accordingly, refundable deposits are accounted for at cost.

In 2013 and 2012, the Group reclassified other receivables amounting to P63.8 million and P68.2 million, respectively, to non-current portion based on management evaluation that settlement will be made within two years.

## 7. REAL ESTATE PROPERTIES

### *7.1 Residential and Condominium Units for Sale*

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

Total capitalized borrowing cost during the year amounted to P25.4 million and P43.8 million in 2013 and 2012, respectively (see Note 14.3).

### *7.2 Property Development Costs*

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

### *7.3 Net Realizable Value*

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

## 8. ADVANCES TO LANDOWNERS AND JOINT VENTURES

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

The details of advances to landowners and joint ventures are as follows:

| | **2013** | 2012 |
|---|---|---|
| Advances to landowners: | | |
| Balance at beginning of year | **P 25,000,029** | P 118,184,386 |
| Additional advances granted | **-** | 159,686,257 |
| Reclassifications | **-** | ( 252,870,614) |
| Balance at end of year | **25,000,029** | 25,000,029 |
| Advances to joint ventures: | | |
| Balance at beginning of year | **797,584,764** | 822,031,807 |
| Additional advances granted | **3,185,932** | 2,760,340 |
| Collections | **( 38,695,480)** | ( 27,207,383) |
| Balance at end of year | **762,075,216** | 797,584,764 |
| | **P 787,075,245** | P 822,584,793 |

In 2012, certain down payments made on parcels of land, amounting to P130.0 million and P122.9 million, were reclassified to Land Held for Future Development and Property Development Costs account, respectively, upon full payment by the Group and transfer of title to the Group from the landowners. There was no such transaction in 2013.

The Group commits to develop the properties based on the terms agreed with joint venture partners. Total commitment for cash advances under the existing joint venture agreements amounted to P300.0 million in 2011 (nil in 2012 and 2013). This commitment has been fully complied with by the Group as of December 31, 2013 and 2012.

The net commitment for construction expenditures amounts to:

| | **2013** | 2012 |
|---|---|---|
| Total commitment for construction expenditures | **P 7,465,887,664** | P 7,465,887,664 |
| Total expenditures incurred | **( 3,067,637,235)** | ( 1,934,085,679) |
| Net commitment | **P 4,398,250,429** | P 5,531,801,985 |

The Group's interest in jointly controlled operations and projects ranges from 55% to 82% in 2013 and 2012, respectively. The Group's jointly controlled projects are as follows:

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

As of December 31, 2013 and 2012, the Group has no other material contingent liabilities with regard to these joint ventures.

## 9. LAND HELD FOR FUTURE DEVELOPMENT

This account includes cost of several parcels of land acquired by the Group and other costs incurred to effect the transfer of the title of the properties to the Group. Most of these properties are located in Metro Manila and Calabarzon areas and are intended for future development. Real estate taxes paid relating to these properties amounted to P9.4 million, P4.8 million and P1.0 million in 2013, 2012 and 2011, respectively, and is presented as part of Taxes and Licenses in the consolidated statements of comprehensive income. Management believes that the net realizable value of land held for future development is higher than its related carrying value as of the end of the reporting periods.

## 10. INVESTMENT IN ASSOCIATES

The components of the investments in associates as of December 31, 2013 and 2012, are as follows:

| | % Interest Held | 2013 | % Interest Held | 2012 |
|---|---|---|---|---|
| Investments in associates – at equity | | | | |
| Acquisition costs: | | | | |
| GPMAI | 47% | **P293,960,618** | 47% | P293,960,618 |
| SPI | - | **-** | 33% | 371,154,818 |
| | | **293,960,618** | | 665,115,436 |
| Accumulated equity in net earnings (losses): | | | | |
| Balance at beginning of year | | **100,280,810** | | 16,509,892 |
| Equity share in net earnings for the year | | **34,635,124** | | 83,770,918 |
| Equity in net earnings on investment in SPI sold during the year | | **( 135,504,317)** | | - |
| Balance at end of year | | **( 588,383)** | | 100,280,810 |
| Advances to SPI treated as investment | | **-** | | 204,750,000 |
| | | **P293,372,235** | | P 970,146,246 |

### *10.1 Sale of Investment in SPI*

On June 7, 2013, the Company sold its 33% ownership interest in SPI to Megaworld. A total of 315,000,008 shares were sold for a total consideration of P471.2 million. The carrying amount of investment in SPI at the time of sale is P506.7 million. Accordingly, loss on the sale of investment amounting to P35.4 million was recognized and presented as part of Other Expenses in the 2013 consolidated statement of comprehensive income (See Note 18).

### *10.2 Dilution of Ownership Interest in GPMAI and SPI*

On December 26, 2012, GPMAI issued additional 5,000,000 shares of stock at P1 par value which was purchased by a third party. As a result, the percentage of ownership of the Company over GPMAI was diluted from 52% to 47%, thereby losing control over the latter. The fair value from the remeasurement of the Company's investment in GPMAI amounting to P294.0 million was recognized as the deemed cost of the new investment in associate. The related balances of GPMAI's assets and liabilities as of December 26, 2012 were deconsolidated in 2012 and were no longer in the consolidated statement of financial position as of December 31, 2012. Accordingly, loss from dilution amounting to P37.5 million was recognized in the 2012 consolidated statement of comprehensive income.

On March 25, 2011, the percentage ownership of the Company over SPI was diluted and reduced from 80% to 33% due to Megaworld's subscription to SPI's unissued capital stock. As a result, SPI became a subsidiary of Megaworld holding approximately 59% ownership in SPI. The fair value of the reduced ownership interest of the Company in SPI amounting to P371.2 million was recognized as the deemed cost of the investment in associate. Accordingly, a loss from dilution amounting to P57.8 million was recognized in the 2011 consolidated statement of comprehensive income.

A portion of the Group's advances to SPI amounting to P204.8 million is presented as part of the Investment in Associates account as of December 31, 2012 since settlement of the advances is neither planned nor likely in the foreseeable future. These advances were reclassified and presented as part of Advances to Related Parties in the 2013 statement of financial position as the Group no longer have any ownership interest with SPI as of December 31, 2013 (see Note 22.1).

Equity share in net earnings of associates amounted to P34.6 million in 2013 and P83.8 million in 2012 and are presented in the consolidated statements of comprehensive income. No dividends were received from these investments in 2013 and 2012.

### *10.3 Summarized Financial Information*

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

| | Assets | Liabilities | Revenues | Net Profit (Loss) |
|---|---|---|---|---|
| 2013 – | | | | |
| GPMAI | **P 606,925,269** | **P 12,044,804** | **P 6,100,708** | **(P 10,390,561)** |
| 2012: | | | | |
| SPI | P 7,355,569,029 | P 5,925,688,531 | P 896,244,643 | P 242,487,133 |
| GPMAI | 617,315,052 | 12,044,026 | - | ( 93,998,746) |
| | P 7,972,884,081 | P 5,937,732,557 | P 896,244,643 | P 148,488,387 |

As of December 31, 2013 and 2012, the related book values of the Group holding in these associates amounting to P293.9 million and P758.6 million, respectively, are higher than or equal to the related carrying amount; hence, the Group deemed that no impairment loss is necessary.

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The movements of the carrying amounts of AFS financial assets are as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| Balance at beginning of year | | **P 1,887,176,000** | P 1,652,746,082 |
| Fair value gains – net | | **1,017,904,000** | 464,392,000 |
| Deconsolidation of balance related to GPMAI | 10 | **-** | ( 229,962,082) |
| Balance at end of year | | **P2,905,080,000** | P 1,887,176,000 |

AFS financial assets mainly consist of investments held by EPHI in equity securities of the Ultimate Parent Company listed in the PSE. The fair value of these securities has been determined directly by reference to published prices in an active market. The fair value of these investments, amounting to P2.9 billion, is categorized as Level 1 in the fair value hierarchy. On the other hand, the Group's Level 3 investments amounting to P2.7 million include equity instruments which are presented as part of Other Non-Current Assets account in the consolidated statements of financial position.

The net accumulated fair value gains or losses in AFS financial assets is shown as Revaluation Reserves in the equity section of the consolidated statements of financial position.

Dividends earned amounted to P42.8 million, P40.5 million and P44.4 million in 2013, 2012 and 2011 and are presented as Dividend income under Finance Income in the consolidated statements of comprehensive income (see Note 19.1).

## 12. INVESTMENT PROPERTY

The Group's investment property pertains to building and office/commercial units for lease and a parcel of land held for capital appreciation. Rental revenues recognized for the years ended December 31, 2013, 2012 and 2011 amounted to P121.4 million, P45.0 million and P47.6 million, respectively, and are presented as Rental Income in the consolidated statements of comprehensive income. Real estate taxes and depreciation substantially represent direct costs related to these properties. Real estate tax amounting to P1.1 million, P1.6 million and P1.0 million was recognized as a related expense in 2013, 2012 and 2011, respectively, and presented as part of Taxes and Licenses in the consolidated statements of comprehensive income.

The gross carrying amounts and accumulated depreciation of investment property as of the reporting period is shown below.

| | Note | **2013** | 2012 | 2011 |
|---|---|---|---|---|
| Cost | | **P 337,136,458** | P 351,596,080 | P 351,596,080 |
| Deconsolidation of balance Related to GPMAI | 10 | **-** | ( 14,459,622) | - |
| Accumulated depreciation | | **( 151,583,942)** | ( 134,779,119) | ( 117,974,296) |
| Net carrying amount | | **P 185,552,516** | P 202,357,339 | P 233,621,784 |

A reconciliation of the carrying amount of investment property at the beginning and end of 2013 and 2012 are as follows:

| | Note | **2013** | 2012 |
|---|---|---|---|
| Balance at January 1, net of accumulated depreciation | | **P 202,357,339** | P 233,621,784 |
| Deconsolidation of balance related to GPMAI | 10 | **-** | ( 14,459,622) |
| Depreciation charges for the year | | **( 16,804,823)** | ( 16,804,823) |
| Balance at December 31, net of accumulated depreciation | | **P 185,552,516** | P 202,357,339 |

The amount of depreciation expense is presented as part of the Depreciation and Amortization account in the consolidated statements of comprehensive income.

Other information relating to fair value measurements and disclosures of investment property are disclosed in Note 28.

## 13. PROPERTY AND EQUIPMENT

As of December 31, 2013 and 2012, this account includes land amounting to P81,095,000 which is used as LBASI's school site. The gross carrying amounts and accumulated depreciation and amortization of other items of property and equipment at the beginning and end of 2013 and 2012 are shown below.

| | Building and Other Improvements | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| December 31, 2013 | | | | | |
| Cost | P 73,617,523 | P 110,449,797 | P 51,677,754 | P 59,561,765 | P 295,306,839 |
| Accumulated depreciation and amortization | ( 25,130,765) | ( 98,267,819) | ( 42,325,796) | ( 50,307,365) | ( 216,031,745) |
| Net carrying amount | **P 48,486,758** | **P 12,181,978** | **P 9,351,958** | **P 9,254,400** | **P 79,275,094** |
| December 31, 2012 | | | | | |
| Cost | P 73,144,723 | P 104,133,832 | P 55,886,319 | P 57,990,193 | P 291,155,067 |
| Accumulated depreciation and amortization | ( 22,195,567) | ( 92,500,052) | ( 43,614,764) | ( 42,874,061) | ( 201,184,444) |
| Net carrying amount | P 50,949,156 | P 11,633,780 | P 12,271,555 | P 15,116,132 | P 89,970,623 |
| January 1, 2012 | | | | | |
| Cost | P 73,144,723 | P 97,038,848 | P 52,345,401 | P 52,500,247 | P 275,029,219 |
| Accumulated depreciation and amortization | ( 19,269,778) | ( 87,425,798) | ( 38,161,309) | ( 34,738,275) | ( 179,595,160) |
| Net carrying amount | P 53,874,945 | P 9,613,050 | P 14,184,092 | P 17,761,972 | P 95,434,059 |

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 is shown below.

| | Building and Other Improvements | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2013, net of accumulated depreciation and amortization | P 50,949,156 | P 11,633,780 | P 12,271,555 | P 15,116,132 | P 89,970,623 |
| Additions | 472,800 | 6,419,491 | 3,100,482 | 1,823,137 | 11,815,910 |
| Disposals | - | ( 67,434) | ( 2,108,346) | ( 125,448) | ( 2,301,228) |
| Depreciation and amortization charges for the year | ( 2,935,198) | ( 5,803,859) | ( 3,911,733) | ( 7,559,421) | ( 20,210,211) |
| Balance at December 31, 2013, net of accumulated depreciation and amortization | **P 48,486,758** | **P 12,181,978** | **P 9,351,958** | **P 9,254,400** | **P 79,275,094** |

| | Building and Other Improvements | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2012, net of accumulated depreciation and amortization | P 53,874,945 | P 9,613,050 | P 14,184,093 | P 17,761,972 | P 95,434,060 |
| Additions | - | 7,094,984 | 3,540,918 | 5,489,944 | 16,125,846 |
| Reclassification | - | 28,524 | - | ( 28,524) | - |
| Depreciation and amortization charges for the year | ( 2,925,789) | ( 5,102,778) | ( 5,453,456) | ( 8,107,260) | ( 21,589,283) |
| Balance at December 31, 2012, net of accumulated depreciation and amortization | P 50,949,156 | P 11,633,780 | P 12,271,555 | P 15,116,132 | P 89,970,623 |

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

The cost of fully depreciated assets still used in business amounted to P152.0 million and P136.9 million as of December 31, 2013 and 2012, respectively.

## 14. INTEREST-BEARING LOANS AND BORROWINGS

At December 31, 2013 and 2012, the Group's interest-bearing loans and borrowings are as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| Current: | | | |
| Bank loans | | **P 71,200,342** | P 95,846,754 |
| Commercial/term loan | 22.3 | **-** | 57,142,857 |
| | | **71,200,342** | 152,989,611 |
| Non-current: | | | |
| Bank loans | | **148,530,809** | 236,893,851 |
| | | **P 219,731,151** | P 389,883,462 |

Certain properties presented as part of Residential and Condominium Units for Sale and Trade Receivables with total estimated carrying value of 654.7 million and P861.1 million, as of December 31, 2013 and 2012, respectively are used as collateral for the P219.7 million and P389.9 million loans and borrowings as of December 31, 2013 and 2012, respectively.

### *14.1 Bank Loans*

The bank loans represent secured loans from banks. The loans bear annual interest rates ranging from 7.8% to 10.5% in 2013 and 2012 and 7.9% to 10.5% in 2011. Bank loans also include proceeds received from certain trade receivables that were discounted on a with-recourse basis (see Note 6).

Finance costs that are directly attributable to construction of the Group's projects are capitalized as part of Residential and Condominium Units for Sale (see Note 14.3).

Certain bank loans require the Group to maintain a debt-to-equity ratio of not more than 1:1 and a current ratio of not less than 2:1. As of December 31, 2013 and 2012, the Group is in compliance with such financial covenant obligation.

### *14.2 Commercial/Term Loans*

Included in the 2012 balance of commercial/term loans is the P400.0 million loan obtained in 2006 from a government institution. This loan bears annual interest of 10.5% and is secured by certain real estate properties owned by a stockholder (see Note 22.3). The principal amount is payable in seven equal annual amortization beginning March 15, 2007. Interest payments are due and payable semi-annually, with the first interest payment due on September 15, 2006 and every six months thereafter. The loan was fully settled in 2013.

### *14.3 Interest*

Total interest on these interest-bearing loans and borrowings in 2013, 2012 and 2011 amounted to P25.4 million, P43.8 million and P76.1 million, respectively. Interest expense that are directly attributable to the construction of the Company's projects are capitalized as part of Residential and Condominium Units for Sale accounts in the consolidated statements of financial position. The Group's capitalization rate is 9.2%, 9.5% and 9.2% in 2013, 2012 and 2011, respectively (see Note 7.1). Unpaid interest as of December 31, 2013 and 2012 amounted to P0.7 million and P2.8 million, respectively, and is presented as Interest Payable under the Trade and Other Payables account in the statements of financial position (see Note 15).

## 15. TRADE AND OTHER PAYABLES

This account consists of:

| | Note | **2013** | 2012 |
|---|---|---|---|
| Trade payables | | **P 295,606,188** | P 831,093,216 |
| Accrued expenses | | **66,381,919** | 29,631,551 |
| Taxes payable | | **60,829,266** | 57,126,387 |
| Commissions | | **13,759,017** | 15,759,017 |
| Interest payable | 14.3 | **676,235** | 14,295,782 |
| Miscellaneous | | **880,133** | 535,550 |
| | | **P 438,132,758** | P 948,441,503 |

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

## 16. CUSTOMERS' DEPOSITS

Presented below are the details of this account.

| | 2013 | 2012 |
|---|---|---|
| Advances from customers | P 2,752,160,241 | P 2,564,084,173 |
| Other deposits | 205,208,514 | 175,458,235 |
| | P 2,957,368,755 | P 2,739,542,408 |

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

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

## 17. OTHER CURRENT LIABILITIES

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

| | 2013 | 2012 |
|---|---|---|
| Retention payable | P 262,364,441 | P 148,622,977 |
| Refundable tenant rental deposits | 23,057,330 | 28,954,786 |
| Deferred income | 17,787,624 | 17,026,195 |
| Miscellaneous | 2,490,899 | 2,667,324 |
| | P 305,700,294 | P 197,271,282 |

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

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

## 18. OTHER INCOME AND EXPENSES

### *18.1 Other Income*

The details of this account are shown below.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Forfeited collections and deposits | **P 188,025,808** | P 193,158,929 | P 152,535,626 |
| Tuition and miscellaneous fees | **40,659,477** | 39,950,878 | 40,645,816 |
| Marketing fees | **5,560,753** | 4,424,538 | 3,495,604 |
| Miscellaneous | **21,387,087** | 13,279,906 | 26,704,437 |
| | **P 255,633,125** | P 250,814,251 | P 223,381,483 |

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

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

Miscellaneous income mostly includes collections of common area charges.

### *18.2 Other Expenses*

The breakdown of other operating expenses is shown below.

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Rentals | 25.2 | **P 162,986,752** | P 137,407,335 | P 64,317,582 |
| Loss on sale of investment | 10 | **35,422,273** | - | - |
| Association dues | | **29,087,260** | 34,312,370 | 30,838,930 |
| Utilities | | **26,148,135** | 27,145,364 | 23,737,070 |
| Security services | | **17,529,361** | 14,060,312 | 12,753,420 |
| Documentation | | **8,065,249** | 10,159,405 | 3,984,874 |
| Professional fees | | **7,244,942** | 5,531,073 | 5,224,482 |
| Repairs and maintenance | | **7,097,326** | 5,305,360 | 3,901,581 |
| Janitorial services | | **5,368,875** | 3,646,844 | 821,164 |
| Office supplies | | **5,248,190** | 8,786,138 | 7,437,949 |
| Outside services | | **3,824,093** | 3,263,566 | 2,542,755 |
| Insurance | | **3,234,555** | 3,136,770 | 2,049,623 |
| Marketing events and awards | | **1,201,920** | 649,537 | 704,852 |
| Representation | | **646,371** | 524,485 | 415,232 |
| Miscellaneous | | **16,691,114** | 14,790,840 | 14,666,327 |
| | | **P 329,796,416** | P 268,719,399 | P 173,395,841 |

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

## 19. FINANCE INCOME AND COSTS

The details of this account are shown below.

### *19.1 Finance Income*

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Interest income: | | | | |
| Trade and other receivables | 6 | **P 267,456,702** | P 319,203,884 | P 216,384,588 |
| Advances to related parties | 22.1 | **108,034,380** | 109,628,132 | 98,097,627 |
| Cash and cash equivalents | 5 | **16,201,060** | 24,447,560 | 19,856,160 |
| Tuition fees | | **1,027,354** | 1,006,313 | 1,143,182 |
| | | **392,719,496** | 454,285,889 | 335,481,557 |
| Amortization of day one loss on noninterest – bearing financial instruments | 6, 22.1 | **51,293,349** | 36,622,653 | 38,850,698 |
| Dividend income | 11 | **42,788,000** | 40,536,000 | 44,395,338 |
| Foreign currency gains – net | | **5,775,947** | - | - |
| Gain on disposal of AFS financial assets | | **-** | - | 4,401,401 |
| Gain on disposal of financial assets at FVTPL | | **-** | - | 3,337,364 |
| Fair value losses on financial assets at FVTPL | | **-** | - | ( 616,308) |
| | | **P 492,576,792** | P 531,444,542 | P 425,850,050 |

### *19.2 Finance Cost*

The breakdown of Finance cost is shown below.

| | Notes | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|---|
| Interest expense on advances from related parties | 22.1 | **P 117,115,432** | P 84,211,966 | P 51,600,951 |
| Net interest expense on post-employment defined benefit obligation | 20.2 | **9,457,306** | 7,799,450 | 6,716,405 |
| Foreign currency losses – net | | **-** | 4,619,214 | - |
| | | **P 126,572,738** | P 96,630,630 | P 58,317,356 |

## 20. SALARIES AND EMPLOYEE BENEFITS

### *20.1 Salaries and Employee Benefits Expense*

Expenses recognized for employee benefits are presented below.

| | Note | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|---|
| Short-term benefits | | **P 219,979,783** | P 173,004,160 | P 141,878,152 |
| Post-employment benefits | 20.2 | **35,528,471** | 18,020,056 | 12,810,445 |
| | | **P 255,508,254** | P 191,024,216 | P 154,688,597 |

### *20.2 Post-employment Benefits*

*(a) Characteristics of the Defined Benefit Plan*

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

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

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

Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. All amounts presented below 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 amounts of retirement benefit defined obligation recognized in the consolidated statements of financial position are determined as follows:

| | **2013** | 2012 (As Restated – see Note 2.2) |
|---|---|---|
| Present value of the obligation | **P 300,366,865** | P 158,756,207 |
| Fair value of the assets | **( 11,486,428)** | ( 8,453,807) |
| | **P 288,880,437** | P 150,302,400 |

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

| | **2013** | 2012 (As Restated – see Note 2.2) |
|---|---|---|
| Balance at beginning of year | **P 158,756,207** | P 129,080,053 |
| Current service cost | **35,528,471** | 18,020,056 |
| Interest expense | **9,942,846** | 8,114,452 |
| Remeasurements | | |
| Actuarial losses arising from | | |
| - changes in financial assumptions | **98,849,047** | 3,224,238 |
| - experience adjustments | **( 2,709,706)** | 317,408 |
| Balance at end of year | **P 300,366,865** | P 158,756,207 |

The movement in the fair value of plan assets is presented below.

| | 2013 | 2012 (As Restated – see Note 2.2) |
|---|---|---|
| Balance at beginning of year | **P 8,453,807** | P 5,097,127 |
| Contributions to plan | **3,200,000** | 3,200,000 |
| Interest income | **485,540** | 315,002 |
| Return on plan assets (excluding amounts included in net interest | **( 652,919)** | ( 158,322) |
| Balance at end of year | **P 11,486,428** | P 8,453,807 |

The Group's plan assets only consist of cash and cash equivalents as of December 31, 2013 and 2012 and do not comprise any of the Company's financial instruments or any of its assets occupied and/or used in its operations.

The plan assets incurred negative returns of P0.17 million in 2013 and earned return of P0.16 million in 2012.

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

| | Notes | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|---|
| *Reported in profit or loss:* | | | | |
| Current service cost | 20.1 | **P 35,528,471** | P 18,020,056 | P 12,810,445 |
| Net interest expense | 19.2 | **9,457,306** | 7,799,450 | 6,716,405 |
| | | **P 44,985,777** | P 25,819,506 | P 19,526,850 |
| *Reported in other comprehensive income:* | | | | |
| Actuarial losses (gains) arising from: | | | | |
| - changes in financial assumptions | | **P 98,849,047** | P 3,224,238 | P 39,830,014 |
| - experience adjustments | | **( 2,709,706)** | 317,408 | ( 7,832,843) |
| Return on plan assets (excluding amounts included in net interest) | | **652,919** | 158,322 | 158,238 |
| | | **P 96,792,260** | P 3,699,968 | P 32,155,409 |

Current service cost is presented as part of Salaries and Employee Benefits under Costs and Expenses in the consolidated statements of comprehensive income (see Note 20.1) while the amounts of net interest expense is included as part of Finance Costs under Costs and Expenses in the consolidated statements of comprehensive income (see Note 19.2).

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

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| *Company* | | | |
| Discount rates | **5.32%** | 6.44% | 6.29% |
| Expected rate of salary increases | **10.00%** | 8.00% | 8.00% |
| *EPHI* | | | |
| Discount rates | **5.65%** | 6.18% | 6.00% |
| Expected rate of salary increases | **6.00%** | 8.00% | 8.00% |
| *LBASI* | | | |
| Discount rate | **5.17%** | 5.64% | 8.00% |
| Expected rate of salary increases | **6.00%** | 5.00% | 10.00% |

For other subsidiaries, as their accounting and other administrative functions are being handled by the Company, recognition of cost of retirement benefits is not necessary.

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of an individual for both males and females are as follows:

| | Retirement Age | Average Remaining Working Life |
|---|---|---|
| Company | 60 | 28 |
| LBASI | 60 | 24 |
| EPHI | 60 | 21 |

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government 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, longevity risk and salary risk.

*Interest Risks*

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.

*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, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

*Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2013:

| | Impact on Post-employment Benefit Obligation | | |
|---|---|---|---|
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| *Company* | | | |
| Discount rate | +0.50%/-1.00% | (41,570,957) | 51,824,55 |
| Salary increase rate | +0.75%/-1.25% | 46,249,221 | (38,411,489) |
| *LBASI* | | | |
| Discount rate | +/-1.00% | (557,697) | 693,575 |
| Salary increase rate | +/-1.00% | 641,647 | (530,851) |
| *EPHI* | | | |
| Discount rate | +/-0.50% | (2,355,692) | 2,604,416 |
| Salary increase rate | +/-2.00% | 15,588,813 | (9,414,363) |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the 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 above 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 liability 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.

*Asset-liability Matching Strategies*

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

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

*Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P285.3 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 10 years' time when a significant number of employees is expected to retire.

The Company expects to make contribution of P2.0 million to the plan during the next financial year.

The maturity profile of undiscounted expected benefit payments from the plan follows:

| | |
|---|---|
| Within one year | P 1,299,026 |
| More than one year to five years | 12,551,481 |
| More than five years to ten years | 107,576,032 |
| | P 121,426,539 |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 to 21 years.

## 21. TAXES

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

| | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|
| *Reported in profit or loss* | | | |
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 30% and 10% | **P 58,642,014** | P 47,323,257 | P 37,572,190 |
| Capital gains tax at 10% | **16,334,686** | - | - |
| Final tax at 20% and 7.5% | **3,131,633** | 4,749,031 | 3,783,064 |
| Stock transaction tax | **-** | - | 2,402,489 |
| Minimum corporate income tax (MCIT) at 2% | **-** | - | 1,114 |
| | **78,108,333** | 52,072,288 | 43,758,857 |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | **92,028,022** | 22,714,748 | ( 9,000,156) |
| | **P 170,136,355** | P 74,787,036 | P 34,758,701 |
| *Reported in other comprehensive income –* | | | |
| Deferred tax income at 30% and 10% relating to origination and reversal of temporary differences | **(P 28,805,985)** | (P 929,818) | (P 9,487,970) |

LBASI, as an educational institution, is subject to 10% tax on its taxable income as defined under the tax regulations.

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense is as follows:

| | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|
| Tax on pretax profit at 30% and 10% | **P 171,138,247** | P 89,231,241 | P 97,863,555 |
| Adjustment for income subjected to lower income tax rates: | | | |
| Capital gains tax | **( 13,689,927)** | - | - |
| Final tax | **( 1,649,690)** | ( 2,372,586) | ( 1,952,216) |
| Stock transaction tax | **-** | - | 2,402,489 |
| Tax effects of: | | | |
| Nontaxable income | **( 12,856,959)** | ( 23,299,281) | ( 75,108,247) |
| Nondeductible expenses | **17,082,179** | 6,766,579 | 820,861 |
| Unrecognized deferred tax assets | **10,112,505** | 14,073,191 | 10,304,658 |
| Deductible issuance costs | **-** | ( 10,103,013) | - |
| Others – net | **-** | 490,905 | 427,601 |
| Tax expense reported in profit or loss | **P 170,136,355** | P 74,787,036 | P 34,758,701 |

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

| | Consolidated Statements of Financial Position | | Consolidated Statements of Comprehensive Income | | |
|---|---|---|---|---|---|
| | 2013 | 2012 (As Restated – see Note 2.2) | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
| Deferred tax assets: | | | | | |
| Retirement benefit obligation | **P 85,593,828** | P 44,380,202 | **(P 12,407,640)** | (P 6,667,694) | (P 5,216,262) |
| Unamortized past service cost | **2,400,000** | 1,773,000 | **( 627,000)** | ( 423,000) | ( 399,000) |
| Unrealized foreign currency losses - net | **-** | 1,385,764 | **-** | ( 1,385,764) | 1,284,426 |
| Accrued rent | **78,144** | 109,898 | **31,754** | ( 59,674) | 364,122 |
| Net operating loss carryover (NOLCO) | **-** | - | - | - | ( 1,034,824) |
| MCIT | **-** | - | - | - | 7,068 |
| | **88,071,972** | 47,648,864 | **( 13,002,886)** | ( 8,536,132) | ( 4,994,470) |
| Deferred tax liabilities: | | | | | |
| Uncollected realized gross profit | **( 1,026,966,308)** | ( 918,819,728) | **108,146,579** | 36,907,489 | 30,538,969 |
| Capitalized borrowing cost | **( 236,853,126)** | ( 243,087,345) | **( 6,234,219)** | ( 5,656,609) | ( 34,544,655) |
| Unrealized foreign exchange gains – net | **( 1,732,784)** | - | **3,118,548** | - | - |
| Accrued rent | **-** | - | **-** | - | - |
| | **( 1,265,552,218)** | ( 1,161,907,073) | **105,030,908** | 31,250,880 | ( 4,005,686) |
| Deferred Tax Expense (Income) | | | **P 92,028,022** | P 22,714,748 | (P 9,000,156) |
| Net Deferred Tax Liabilities | **P 1,177,480,246** | P 1,114,258,209 | | | |

The deferred tax income recognized in other comprehensive income amounting to P28.8 million, P0.9 million and P9.5 million in 2013, 2012 and 2011, respectively, pertains to the tax effect of remeasurement of retirement benefit obligation.

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

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

| Subsidiary | Year Incurred | Amount | Valid Until |
|---|---|---|---|
| EECI | 2013 | P 33,552,513 | 2016 |
| | 2012 | 45,231,215 | 2015 |
| | 2011 | 39,432,442 | 2014 |
| SPLI | 2013 | 158,754 | 2016 |
| | 2012 | 165,981 | 2015 |
| | 2011 | 161,714 | 2014 |
| SOHI | 2013 | 1,332,016 | 2016 |
| | 2012 | 1,150,692 | 2015 |
| | 2011 | 1,162,432 | 2014 |
| VVPI | 2013 | 271,483 | 2016 |
| | 2012 | 262,501 | 2015 |
| | 2011 | 259,494 | 2014 |

EECI, SPLI, SOHI and VVPI did not recognize deferred tax assets on their respective NOLCO as management believes that the related deferred tax assets may not be recovered within the prescriptive period. The amount of NOLCO as of the end of 2013 for which the related deferred tax asset has not been recognized amounted to a total of P35.3 million with a total tax effect of P10.6 million.

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

| | Assets | Deficit | Revenues | Net Loss |
|---|---|---|---|---|
| **2013** | | | | |
| EECI | P 28,397,146 | P 167,892,337 | P 20,746,854 | P 33,549,522 |
| SPLI | 511,899,161 | 9,326,437 | - | 158,754 |
| SOHI | 16,936,665 | 7,282,275 | - | 1,505,855 |
| VVPI | 90,918,618 | 3,275,078 | - | 271,483 |
| | **P 648,151,590** | **P 187,776,127** | **P 20,746,854** | **P 35,485,614** |
| 2012 | | | | |
| EECI | P 19,256,571 | P 134,342,815 | P 16,417,537 | P 45,224,030 |
| SPLI | 511,859,612 | 9,167,683 | - | 165,982 |
| SOHI | 16,840,595 | 5,776,420 | - | 1,150,692 |
| VVPI | 90,814,617 | 3,003,595 | - | 753,406 |
| | P 638,771,395 | P 152,290,513 | P 16,417,537 | P 47,294,110 |

In 2013, 2012 and 2011, the Group opted to claim itemized deductions in computing for its tax due.

## 22. RELATED PARTY TRANSACTIONS

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

The summary of the Group's significant transactions with its related parties as of and for the years ended December 31, 2013, 2012 and 2011 are as follows:

| Related Party Category | Notes | Amounts of Transaction 2013 | 2012 | 2011 | Outstanding Balance 2013 | 2012 |
|---|---|---|---|---|---|---|
| **Ultimate Parent:** | | | | | | |
| AFS financial assets | 11 | **P1,017,904,000** | P 464,392,000 | P 352,382,960 | **P2,905,080,000** | P1,887,176,000 |
| Dividend income | 19.1 | **42,788,000** | 40,536,000 | 44,395,338 | **-** | - |
| | | **P1,060,692,000** | P 504,928,000 | P 396,778,298 | **P2,905,080,000** | P1,887,176,000 |
| **Advances to related parties:** | | | | | | |
| **Associates:** | 22.1 | | | | | |
| Loans and interest | | **(P 913,981,506)** | P 102,712,258 | P 811,269,247 | **P -** | P 913,981,506 |
| Capital expenditure | | **( 231,570,819)** | - | 231,570,819 | **-** | 231,570,819 |
| Working capital | | **5,778,194** | 42,563,867 | 61,466,469 | **284,200,727** | 278,422,533 |
| | | **(P 1,139,774,131)** | P 145,276,125 | P1,104,306,535 | **P 284,200,727** | P1,423,974,858 |
| **Under common ownership:** | 22.1 | | | | | |
| Loans and interest | | **P1,029,390,050** | P 2,219,097 | (P 15,686,203) | **P1,063,221,733** | P 33,831,683 |
| Investment | | **242,250,000** | - | - | **242,250,000** | - |
| Capital expenditure | | **231,570,819** | - | | **234,164,981** | 2,594,162 |
| Working capital | | **2,962,841** | ( 91,285,366) | 106,779 | **229,954,333** | 226,991,492 |
| | | **P 1,506,173,710** | (P 89,066,269) | (P 15,579,424) | **P1,769,591,047** | P 263,417,337 |

| Related Party Category | Note | Amounts of Transaction 2013 | Amounts of Transaction 2012 | Amounts of Transaction 2011 | Outstanding Balance 2013 | Outstanding Balance 2012 |
|---|---|---|---|---|---|---|
| **Advances from related parties:** | | | | | | |
| **Parent Company:** | 22.1 | | | | | |
| Loans and interest | | **P 1,151,623,215** | (P 84,645,102) | (P 49,709,285) | **P 610,004,941** | (P 541,618,274) |
| Capital expenditure | | **( 25,795,000)** | ( 1,494,000,000) | ( 209,076,757) | **( 1,728,871,757)** | ( 1,703,076,757) |
| Working capital | | **8,154,691** | 68,052,310 | 109,954,915 | **( 71,578,461)** | ( 79,733,152) |
| | | **P1,133,982,906** | (P1,510,592,792) | (P 148,831,127) | **(P1,190,445,277)** | (P2,324,428,183) |
| **Associates:** | 22.1 | | | | | |
| Capital expenditure | | **P -** | (P 380,770,134) | P - | **(P 380,770,134)** | (P 380,770,134) |
| Working capital | | **( 493,543)** | ( 6,432,028) | - | **( 6,925,571)** | ( 6,432,030) |
| | | **(P 493,543)** | (P 387,202,162) | P - | **(P 387,695,705)** | (P 387,202,164) |
| **Under common ownership:** | 22.1 | | | | | |
| Loans and interest | | **P -** | (P 65,021) | (P 54,381) | **P -** | P - |
| Capital expenditure | | **11,250,000** | 10,921,754 | ( 39,375,000) | **( 63,367,245)** | ( 74,617,246) |
| Working capital | | **( 37,500,000)** | 37,500,000 | 32,557,809 | **( 1,845,757)** | 35,654,242 |
| | | **(P 26,250,000)** | P 48,356,733 | (P 6,871,572) | **(P 65,213,002)** | (P 38,963,000) |

The Group's outstanding receivables from and payables to related parties arising from interest-bearing loans, joint venture agreements, lease of property and cash advances to related party are unsecured and demandable anytime.

### *22.1 Advances to and from Related Parties*

Entities within the Group obtain advances from the related parties for working capital requirements and other purposes.

The details of Advances to Related Parties as presented in the consolidated statements of financial position are as follows:

| | **2013** | 2012 |
|---|---|---|
| SPI | **P 1,468,674,266** | P 1,175,024,983 |
| MCPI | **284,200,726** | 248,949,873 |
| First Oceanic Property Management, Inc. | **34,449,016** | 34,449,016 |
| Other related parties | **266,467,766** | 228,968,323 |
| | **P 2,053,791,774** | P 1,687,392,195 |

The movements in the advances to related parties are shown below.

| | Notes | **2013** | 2012 |
|---|---|---|---|
| Balance at beginning of year | | **P 1,687,392,195** | P 1,631,182,339 |
| Additional advances | | **161,150,136** | 209,478,484 |
| Reclassification | 10.2 | **242,250,000** | - |
| Collections received | | **( 37,000,557)** | ( 163,863,719) |
| Deconsolidation of GPMAI balance | | **-** | 8,375,994 |
| Amortization of interest | 19 | **-** | 2,219,097 |
| Balance at end of year | | **P 2,053,791,774** | P 1,687,392,195 |

In 2012, a portion of the Group's advances to SPI amounting to P204.8 million is presented as part of net investment and now reclassified to Advances to related parties (see Note 10.2).

The details of Advances from Related Parties are as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| Advances from parent company: | | | |
| Balance at beginning of year | | **P 2,324,428,183** | P 813,835,394 |
| Additions | | **141,745,633** | 1,579,370,810 |
| Repayments | | **( 1,275,728,539)** | ( 68,778,021) |
| Balance at end of year | | **P 1,190,445,277** | P 2,324,428,183 |
| Advances from associates and related parties under common ownership: | | | |
| Balance at beginning of year | | **P 426,165,164** | P 87,319,733 |
| Additions | | **493,543** | 381,596,376 |
| Deconsolidation of GPMAI balance | | **-** | 6,323,193 |
| Repayments | | **( 11,250,000)** | ( 11,639,159) |
| Reclassification | | **37,500,000** | ( 37,500,000) |
| Amortization of interest | 19 | **-** | 65,021 |
| Balance at end of year | | **P 452,908,707** | P 426,165,164 |
| Total advances from related parties: | | | |
| Balance at beginning of year | | **P 2,750,593,347** | P 901,155,124 |
| Additions | | **142,239,176** | 1,960,967,186 |
| Deconsolidation of GPMAI balance | | **-** | 6,323,193 |
| Repayments | | **( 1,286,978,539)** | ( 80,417,177) |
| Reclassification | | **37,500,000** | ( 37,500,000) |
| Amortization of interest | 19 | **-** | 65,021 |
| Balance at end of year | | **P 1,643,353,984** | P 2,750,593,347 |

These advances to/from stockholders, associates and other related parties are generally unsecured. Some of these are interest-bearing (see Note 19.1). The amounts are generally collectible/payable in cash on demand or through offsetting arrangements with the related parties; hence, their carrying values are considered to be a reasonable approximation of their fair values.

Certain advances to and from related parties were discounted to present values. Amortization of interest is presented as part of Finance Income in the 2012 consolidated statements of comprehensive income (see Note 19.1).

### *22.2 Marketing Fee*

The Group earns marketing fee from the sale of Megaworld's real estate properties and also from the sale of landowners' share/units in the joint venture projects with the Group. The marketing fee recognized amounted to P147.6 million, P149.6 million and P149.8 million in 2013, 2012 and 2011, respectively, which is presented as Commission in the consolidated statements of comprehensive income. The related receivables arising from marketing fees are presented as part of Advances to Related Parties in the consolidated statements of financial position (see Note 22.1).

### *22.3 Commercial/Term Loan*

In 2012, the Group has an outstanding commercial/term loan from a government institution bearing an annual interest rate of 10.5%. This loan is secured by certain real estate properties owned by a stockholder of the Company (see Note 14.2).

### *22.4 Deed of Assignment*

In June 2011, Fil-Estate Properties, Inc. (FEPI), a related party under common ownership, has agreed to assign the right to develop a certain property. In consideration of the assignment, the Group shall pay FEPI a non-refundable cash consideration totaling P60.0 million. As of December 31, 2013 and 2012, the unpaid portion of the cash consideration amounting to P16.8 million and P28.1 million, respectively, is presented as part of the Advances from Related Parties account in the consolidated statements of financial position.

### *22.5 Key Management Personnel Compensation*

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

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Short-term benefits | **P 25,295,848** | P 23,386,710 | P 19,276,453 |
| Post-employment benefits | **4,726,022** | 7,692,779 | 3,112,283 |
| | **P 30,021,870** | P 31,079,489 | P 22,388,736 |

These are presented as part of Salaries and Employee Benefits under Cost and Expenses in the consolidated statements of comprehensive income for the years ended December 31, 2013, 2012 and 2011 (see Note 20.1).

### *22.6 Retirement Plan*

The Group's retirement fund for its post-employment defined benefit plan is administered and managed by a trustee bank. The plan assets solely consist of cash and cash equivalents amounting to P11.5 million and P8.5 million as of December 31, 2013 and 2012, respectively (see Note 20.2).

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

The details of the contributions of the Group and benefits paid out by the plan are presented in Note 20.2.

## 23. EQUITY

### *23.1 Capital Stock*

Capital stock consists of:

| | Shares | | Amount | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Common shares – P1 par value | | | | |
| Authorized: | | | | |
| Balance at beginning of year | **31,495,200,000** | 21,495,200,000 | **P 31,495,200,000** | P 21,495,200,000 |
| Additions during the year | **-** | 10,000,000,000 | **-** | 10,000,000,000 |
| Balance at end of year | **31,495,200,000** | 31,495,200,000 | **31,495,200,000** | 31,495,200,000 |
| Issued: | | | | |
| Balance at beginning of year | **13,603,455,238** | 10,622,492,325 | **13,603,455,238** | 10,622,492,325 |
| Issuance during the year | **1,200,000,000** | 2,980,962,913 | **1,200,000,000** | 2,980,962,913 |
| Balance at end of year | **14,803,455,238** | 13,603,455,238 | **14,803,455,238** | 13,603,455,238 |
| Preferred shares – P1 par value | | | | |
| Authorized, issued and outstanding | **2,000,000,000** | 2,000,000,000 | **2,000,000,000** | 2,000,000,000 |
| Subscribed and outstanding: | | | | |
| Balance at beginning of year | **-** | 285,723,080 | **-** | 285,723,080 |
| Conversion to common shares | **-** | ( 285,723,080) | **-** | ( 285,723,080) |
| Balance at end of year | **-** | - | **-** | - |

On June 26, 2013, the Company issued additional 1.2 billion common shares to Megaworld at P1.05 per share for a total cash consideration of P1.3 billion resulting to additional paid in capital of P60.0 million. Megaworld's ownership interest in the Company as of December 31, 2013 and 2012 is 81.53% and 78.59%, respectively.

On April 24, 2012, the Company's BOD approved the offer for subscription of 2,695,239,834 new shares (the "right shares") by way of a pre-emptive offer (the "rights offer") to holders of its common shares at the proportion of one new share for every four existing common shares, at the offer/exercise price equivalent to their par value of P1 per share. This was approved by SEC on August 30, 2012.

Also, on April 24, 2012, the BOD approved the increase in the Company's authorized capital stock from P23.5 billion divided into 21.5 billion common and 2.0 billion preferred shares both with par value of P1 each, to P33.5 billion divided into 31.5 billion common and 2.0 billion preferred shares both with par value of P1 per share. The application for the increase in authorized capital stock was approved by the SEC on October 17, 2012.

The Series B preferred shares are nonredeemable, convertible into common shares and are nonvoting. The shares have zero coupon rate and shall not be entitled to dividends. The Series B preferred shares shall be convertible to common shares anytime after the end of the 18 months from the implementation date, May 29, 1998, as defined in the subscription agreements. On August 31, 2012, the Company converted all the issued preferred shares into common shares amounting to P285.7 million.

On April 24, 1996, the Company obtained approval for the listing of its common stock on the PSE; thereafter, the shares were offered for the sale to the public. The initial public offering consists of 214,666,667 new common shares and the sale by a stockholder of the Company of 210,333,333 existing common shares at an offer price of P12.90 per share.

As of December 31, 2013 and 2012, the Company's outstanding number of shares totalled 14,676,199,167 and 13,476,199,167, respectively, with total of 127,256,071 treasury stock as of the end of both years in which 13,603,455,238 as of December 31, 2013 and 2012 were listed and closed at a price of P0.92 and P0.99 per share (as of December 27, 2013 and December 28, 2012, respectively). The Company has 12,894 and 13,125 holders of equity securities listed in PSE as of December 31, 2013 and 2012, respectively.

### *23.2 Treasury Stock*

The details of this account are as follows:

| | Shares | | | Amount | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | **2013** | 2012 | 2011 |
| Balance at beginning of year | **127,256,071** | 153,911,071 | 153,911,071 | **P 102,106,658** | P 116,233,808 | P 116,233,808 |
| Deconsolidation of GPMAI | **-** | ( 26,655,000) | - | **-** | ( 14,127,150) | - |
| Balance at end of year | **127,256,071** | 127,256,071 | 153,911,071 | **P 102,106,658** | P 102,106,658 | P 116,233,808 |

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

### *23.3 Retained Earnings*

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

## 24. EARNINGS PER SHARE

Earnings per share amounts were computed as follows:

| | **2013** | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|
| Basic earnings per share: | | | |
| Net profit attributable to parent company's shareholders | **P 299,466,849** | P 234,603,385 | P 179,624,379 |
| Divided by the weighted average number of issued and outstanding common shares | **14,057,360,265** | 11,181,475,712 | 10,468,581,253 |
| | **P 0.021** | P 0.021 | P 0.017 |

| | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|---|---|---|
| Diluted earnings per share: | | | |
| Net profit attributable to parent company's shareholders | **P 299,466,849** | P 234,603,385 | P 179,624,379 |
| Divided by the weighted average number of issued and outstanding common shares and potential common shares from assumed conversion of convertible Series B preferred shares | **14,057,360,265** | 11,371,696,831 | 10,754,304,333 |
| | **P 0.021** | P 0.021 | P 0.017 |

## 25. COMMITMENTS AND CONTINGENCIES

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

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

The Group is a lessor under several operating leases covering real estate properties for commercial use. The leases have terms ranging from one to three years, with renewal options, and include annual escalation rates of 2% to 10%. The average annual rental covering these agreements amounts to about P121.4 million in 2013, P45.0 million in 2012 and P47.6 million in 2011.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Within one year | **P 24,439,210** | P 18,699,525 | P 15,520,714 |
| After one year but not more than five years | **66,825,230** | 5,499,839 | 4,279,758 |
| More than five years | **-** | 5,976,632 | 11,261,850 |
| | **P 91,264,440** | P 30,175,996 | P 31,062,322 |

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

The Group is a lessee under non-cancellable operating leases covering certain offices, showroom and parking slots. Leases have terms ranging from one to four years, with renewal options and include annual escalation rate of 2% to 10%. The future minimum rentals payable under these non-cancellable operating leases as of December 31 are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Within one year | **P 38,496,570** | P 36,893,558 | P 37,253,043 |
| After one year but not more than five years | **38,161,726** | 23,383,968 | 30,756,435 |
| | **P 76,658,296** | P 60,277,526 | P 68,009,478 |

Total rentals from these operating leases which was charged to Rentals under Other Expenses in the consolidated statements of comprehensive income amounted to P163.5 million, P137.4 million and P64.3 million in 2013, 2012 and 2011, respectively (see Note 18.2).

### *25.3 Legal Claims*

As of December 31, 2013, the Group is a party to a litigation arising in the normal course of business. No provision for contingency was recognized in the consolidated financial statements because the ultimate outcome of this litigation cannot presently be determined. In addition, the Group's management believes that the impact of which to the consolidated financial statements, taken as a whole, is not material.

### *25.4 Credit Lines*

The Group has existing credit lines with local banks for a maximum amount of P2.9 billion, P3.3 billion, and P3.8 billion as of December 31, 2013, 2012 and 2011, respectively. The Group has unused lines of credit amounting to P670.0 million as of December 31, 2013 and 2012 and P168.0 million as of December 31, 2011.

### *25.5 Capital Commitments*

The Group has capital commitments for the unutilized balance of its stock rights offering amounting to P12.2 million as of December 31, 2013 for the land banking, project development and general corporate purposes.

### *25.6 Others*

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

## 26. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

### *26.1 Market Risk*

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

*(a) Foreign Currency Risk*

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

The Group's U.S. dollar-denominated financial assets, translated into Philippine pesos at the closing rate, amounted to P81.1 million, P77.1 million and P90.3 million as of December 31, 2013, 2012 and 2011, respectively. There were no U.S. dollar-denominated financial liabilities as of December 31, 2013, 2012 and 2011.

At December 31, 2013, 2012 and 2011, if the Philippine peso had strengthened by 23.40%, 15.67% and 16.23% against the U.S. dollar with all other variables held constant, profit before tax for the year would have been lower by P19.0 million, P12.1 million and P14.7 million, respectively, mainly as a result of foreign currency loss on translation of U.S. dollar-denominated cash and cash equivalents.

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

The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of reporting period.

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

*(b) Interest Rate Risk*

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

The following paragraph presents the sensitivity of the net result for the year and equity to a reasonably possible change in interest rate of +/- 2.14% and +/- 2.16% for cash and cash equivalents and interest-bearing loans and borrowings, respectively, in 2013, +/- 1.53% and +/- 3.65% for cash and cash equivalents and interest-bearing loans and borrowings, respectively, in 2012 and, +/- 0.66% and +/- 0.76% for cash and cash equivalents and interest-bearing loans and borrowings, respectively, in 2011. These changes are considered to be reasonably possible based on observation of current market conditions. The calculation is based on changes in the average market interest rates for the period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

If the interest rates were to increase, net profit before tax would increase by P5.3 million and P31.6 million in 2013 and 2012, respectively, and decrease by P2.9 million in 2011. If interest rates were to decrease, net profit before tax would decrease in 2013 and 2012 and increase in 2011 by the same amounts.

The movements in interest rates used in the sensitivity analysis are considered reasonably possible and are based on observation of interest rate fluctuations for the past 12 months using a 99%-confidence level. The calculations are based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year.

*(c) Other Price Risk*

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

For equity securities listed in the Philippines, an average volatility of 73.12%, 49.09% and 33.63% has been observed during 2013, 2012 and 2011. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by P2.1 billion in 2013, P530.8 million in 2012 and P516.8 million in 2011.

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

The Group is subject to equity securities price risk because of investments held by the Group and classified on the consolidated statements of financial position as AFS financial assets.

The Group is not subject to commodity price risk.

### *26.2 Credit Risk*

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

| | Notes | **2013** | 2012 |
|---|---|---|---|
| Cash and cash equivalents | 5 | **P 504,471,331** | P 3,033,222,982 |
| Trade and other receivables – net (excluding advances to suppliers and contractors) | 6 | **4,535,668,171** | 4,208,570,334 |
| Advances to related parties | 22 | **2,053,791,774** | 1,687,392,195 |
| | | **P 7,093,931,276** | P 8,929,185,511 |

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

*(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. Trade receivables consist of a large number of customers in various industries and geographical areas. Majority of the trade receivables are secured by postdated checks and titles to residential units sold to buyers are retained to the Group until such time that the outstanding balance is collected in full. Based on historical information about customer default rates, management consider the credit quality of trade receivables that are not past due or impaired to be good.

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

| | **2013** | 2012 |
|---|---|---|
| Not more than 3 months | **P 66,282,246** | P 35,590,337 |
| More than 3 months but not more than 6 months | **126,380,754** | 173,049,418 |
| More than 6 months but not more than one year | **193,346,546** | 207,286,843 |
| More than one year | **60,038,070** | 45,793,567 |
| | **P 446,047,616** | P 461,720,165 |

(c) *Advances to Related Parties*

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

The table below shows the credit quality by class of financial assets as of December 31, 2013.

| | Neither Past Due nor Specifically Impaired | | | Past Due or Individually Impaired | Total |
|---|---|---|---|---|---|
| | High Grade | Standard Grade | Substandard Grade | | |
| Cash and cash equivalents | P 504,471,331 | P - | P - | P - | P 504,471,331 |
| Trade and other receivables - net | 2,113,975,686 | 2,421,692,485 | - | - | 4,535,668,171 |
| Advances to related parties - net | 2,053,791,774 | - | - | - | 2,053,791,774 |
| | **P 4,672,238,791** | **P 2,421,692,485** | **P -** | **P -** | **P 7,093,931,276** |

This compares with the credit quality by class of financial assets as of December 31, 2012.

| | Neither Past Due nor Specifically Impaired | | | Past Due or Individually Impaired | Total |
|---|---|---|---|---|---|
| | High Grade | Standard Grade | Substandard Grade | | |
| Cash and cash equivalents | P 3,033,222,982 | P - | P - | P - | P 3,033,222,982 |
| Trade and other receivables - net | 2,014,211,517 | 2,194,358,817 | - | - | 4,208,570,334 |
| Advances to related parties - net | 1,687,392,195 | | - | - | 1,687,392,195 |
| | P 6,734,826,694 | P 2,194,358,817 | P - | P - | P 8,929,185,511 |

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

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

### *26.3 Liquidity Risk*

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

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, mutual funds 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 at December 31, 2013, the Group's financial liabilities have contractual maturities which are presented below.

| | Within 6 Months | 1 to 5 Years |
|---|---|---|
| Interest-bearing loans and borrowings | P 46,718,976 | P 217,927,707 |
| Trade and other payables | 377,303,492 | - |
| Advances from related parties | 1,643,353,984 | - |
| Other current liabilities | 287,912,670 | - |
| | **P2,355,289,122** | **P 217,927,707** |

This compares to the maturity of the Group's financial liabilities as of December 31, 2012.

| | Within 6 Months | 1 to 5 Years |
|---|---|---|
| Interest-bearing loans and borrowings | P 170,684,851 | P 413,846,258 |
| Trade and other payables | 891,315,116 | - |
| Advances from related parties | 2,750,593,347 | - |
| Other current liabilities | 180,245,087 | - |
| | P3,992,838,401 | P 413,846,258 |

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

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

### *27.1 Carrying Amounts and Fair Values by Category*

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

| | | **2013** | | 2012 | |
|---|---|---|---|---|---|
| | Notes | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| ***Financial assets*** | | | | | |
| Loans and Receivables: | | | | | |
| Cash and cash equivalents | 5 | **P 504,471,331** | **P 504,471,331** | P 3,033,222,982 | P 3,033,222,982 |
| Trade and other receivables | 6 | **4,535,668,171** | **4,601,327,906** | 4,208,570,334 | 4,259,863,683 |
| Advances to related parties | 22.1 | **2,053,791,774** | **2,053,791,774** | 1,687,392,195 | 1,687,392,195 |
| | | **7,093,931,276** | **7,159,591,011** | 8,929,185,511 | 8,980,478,860 |
| AFS Financial Assets | 11 | **2,905,080,000** | **2,905,080,000** | 1,887,176,000 | 1,887,176,000 |
| | | **P 9,999,011,276** | **P 10,064,671,011** | P 10,816,361,511 | P 10,867,654,860 |

| | Notes | 2013 Carrying Values | 2013 Fair Values | 2012 Carrying Values | 2012 Fair Values |
|---|---|---|---|---|---|
| ***Financial Liabilities at amortized cost*** | | | | | |
| Interest-bearing | | | | | |
| loans and borrowings | 14 | **P 219,731,151** | **P 219,731,151** | P 389,883,462 | P 389,883,462 |
| Trade and other payables | 15 | **377,303,492** | **377,303,492** | 891,315,116 | 891,315,116 |
| Advances from related parties | 22.1 | **1,643,353,984** | **1,643,353,984** | 2,750,593,347 | 2,750,593,347 |
| Other current liabilities | 17 | **287,912,670** | **287,912,670** | 180,245,087 | 180,245,087 |
| | | **P 2,528,301,297** | **P 2,528,301,297** | P 4,212,037,012 | P 4,212,037,012 |

See Notes 2.4 and 2.8 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 26.

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

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

| | December 31 2013 | | |
|---|---|---|---|
| | Gross amounts in the statement of financial position | | Net amount presented in the statement of financial position |
| | Financial Assets | Financial Liabilities set-off | |
| Advances to related parties | **P 2,090,792,331** | **P 557** | **P 2,053,791,774** |

| | December 31 2012 | | |
|---|---|---|---|
| | Gross amounts in the statement of financial position | | Net amount presented in the statement of financial position |
| | Financial Assets | Financial Liabilities set-off | |
| Advances to related parties | P 1,851,255,914 | P 88,001,890 | P 1,687,392,195 |

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

| | December 31 2013 | | |
|---|---|---|---|
| | Gross amounts in the statement of financial position | | Net amount presented in the statement of financial position |
| | Financial Liabilities | Financial Assets set-off | |
| Advances from related parties | **P 2,930,332,523** | **P 9,812,366** | **P1,643,353,984** |

| | December 31 2012 | | |
|---|---|---|---|
| | Gross amounts in the statement of financial position | | Net amount presented in the statement of financial position |
| | Financial Liabilities | Financial Assets set-off | |
| Advances from related parties | P 2,862,187,331 | P 59,610,612 | P 2,750,593,347 |

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

## 28. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *28.1 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 that an entity can access at the measurement date;

*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 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.

### 28.2 Financial Instruments Measured at Fair Value

As of December 31, 2013 and 2012, only the equity securities classified as AFS financial assets in the consolidated statements of financial position is classified as Level 1. These securities were valued based on their market prices quoted in the PSE at the end of each reporting period. There were no other financial assets measured at fair value on these dates. Further, the Group has no financial liabilities measured at fair value as of December 31, 2013 and 2012.

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

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

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed.

| | | Fair Value Hierarchy as at December 31, 2013 | | | |
|---|---|---|---|---|---|
| | Notes | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets*** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 5 | P 504,471,331 | P - | P - | P 504,471,331 |
| Trade and other receivables | 6 | - | - | 4,535,668,171 | 4,535,668,171 |
| Advances to related parties | 22 | - | - | 2,053,791,774 | 2,053,791,774 |
| | | **504,471,331** | **-** | **6,589,459,945** | **7,093,931,276** |
| ***Financial Liabilities at amortized cost*** | | | | | |
| Interest-bearing loans and borrowings | | P - | P - | P 219,731,151 | P 219,731,151 |
| Trade and other payables | | - | - | 377,303,492 | 377,303,492 |
| Advances from related parties | | - | - | 1,643,353,984 | 1,643,353,984 |
| Other current liabilities | | - | - | 287,912,670 | 287,912,670 |
| | | **P -** | **P -** | **P 2,528,301,297** | **P 2,528,301,297** |

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

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where significant inputs required to determine the fair value of such instruments are not based on observable market data.

### 28.4 Fair Value Measurement of Non-Financial Assets

The table below shows the Levels within the hierarchy of non-financial assets for which fair value is disclosed as of December 31, 2013.

| | Fair Value Hierarchy as at December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment property: | | | | |
| Land | P - | P 8,400,000 | P - | P 8,400,000 |
| Buildings and office/commercial units | - | - | 513,206,740 | 513,206,740 |
| | **P -** | **P 8,400,000** | **P 513,206,740** | **P 521,606,740** |

The fair values of these non-financial assets were determined based on the following approaches:

*(a) Fair Value Measurement of Land*

The Level 2 fair value of land 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.

*(b) Fair Value Measurement of Building and Office/Residential Units*

The Level 3 fair value of the buildings and office/residential units was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

## 29. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

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

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

The Group monitors its capital gearing by measuring the ratio of Interest-bearing loans and borrowings to total capital. As of December 31, 2013 and 2012, the Group's ratio of Interest-bearing loans and borrowings to equity is as follows:

| | **2013** | 2012 |
|---|---|---|
| Interest-bearing loans and borrowings | **P 219,731,151** | P 389,883,462 |
| Total equity | **24,789,953,923** | 22,279,564,417 |
| Debt-to-equity ratio | **0.01 : 1** | 0.02 : 1 |

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for both years (see Note 14.1).

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

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**The Board of Directors and Stockholders**
**Empire East Land Holdings, Inc. and Subsidiaries**
***(A Subsidiary of Megaworld Corporation)***
21st Floor, The World Centre Building
330 Sen. Gil Puyat Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Empire East Land Holdings, Inc. and Subsidiaries (the Group) for the year ended December 31, 2013, on which we have rendered our report dated March 7, 2014. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**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)

March 7, 2014

**Empire East Land Holdings, Inc. and Subsidiaries**
**List of Supplementary Information**
**December 31, 2013**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule A - Financial Asset at Fair Value Through Profit or Loss**
**December 31, 2013**

| Name of Issuing Entity and Association of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount in Peso | Equity in earnings (losses) of investee for the period | Other | Distibution of earnings by investee | | Number of shares or principal amount of bonds and notes | Amount in Peso | Dividends received from investments not accounted for by the equity method |
|---|---|---|---|---|---|---|---|---|---|
| **AFS Financial Assets** | | | | | | | | | |
| Alliance Global Group, Inc. | 112,600,000 | P 2,905,080,000 | | | | | | P 2,905,080,000 | |

EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES

Schedule B- Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

December 31, 2013

| | | | Deductions | | Ending Balance | | |
|---|---|---|---|---|---|---|---|
| Name and designation of debtor | Balance at Beginning of period | Additions/Transfer 2013 | Amounts collected | Amounts written off | Current | Not current | Balance at end of period |
| Advances to Officers and Employees: | | | | | | | |
| Barrera, Julieta | P 10,803 | P 535,000 | ( P 200,702 ) | | P 345,101 | | P 345,101 |
| Cabrera, Edna Esperanza | 295,672 | | ( 70,717 ) | | 224,955 | | 224,955 |
| Cacho, Evelyn | 520,684 | | ( 105,012 ) | | 415,672 | | 415,672 |
| Chan, Ermanric | 123,930 | | ( 92,017 ) | | 31,913 | | 31,913 |
| Danenberg, Mercedes | 44,461 | | ( 44,461 ) | | - | | - |
| Domingo, Ma. Visitacion | 79,281 | | ( 67,603 ) | | 11,678 | | 11,678 |
| Edaño, Dennis | - | 1,040,000 | ( 27,656 ) | | 1,012,344 | | 1,012,344 |
| Gregorio, Ricardo | - | 905,754 | ( 423,710 ) | | 482,044 | | |
| Llaga, Jhoanna Lyndelou | 724,664 | | ( 110,935 ) | | 613,729 | | 613,729 |
| Llantada Jr. , Antonio | 559,367 | | ( 100,837 ) | | 458,530 | | 458,530 |
| Llena, Jose Arnel | 67,388 | | ( 67,388 ) | | ( 0 ) | | ( 0 ) |
| Libago, Ricky S. | 98,869 | 1,745,000 | ( 1,176,674 ) | | 667,195 | | 667,195 |
| Lim, Robert Edwin | 524,214 | | ( 524,214 ) | | ( 0 ) | | ( 0 ) |
| Madridejos, Arminus | 99,184 | | ( 81,572 ) | | 17,612 | | 17,612 |
| Manalastas, Gail | - | 587,000 | ( 225,491 ) | | 361,509 | | 361,509 |
| Manalac, Michael | 131,094 | | ( 81,345 ) | | 49,749 | | 49,749 |
| Pailan, Ellan Mark | - | 613,000 | ( 270,655 ) | | 342,345 | | 342,345 |
| Ramos, Franemil | 135,987 | | ( 91,965 ) | | 44,022 | | 44,022 |
| Sioson-Bumatay, Celeste Z. | - | 793,000 | ( 33,886 ) | | 759,114 | | 759,114 |
| | P 3,415,597 | P 6,218,753 | ( P 3,796,838 ) | - | P 5,837,512 | - | P 5,355,468 |

*Note: Please refer to Schedule C for Amounts Receivable from Related parties.*

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**
**December 31, 2013**

| Name and Designation of debtor | | Balance of beginning period | | Balance at the end of period |
|---|---|---|---|---|
| Eastwood Properties Holdings, Inc. | P | 1,316,806,782 | P | 1,279,306,782 |
| Empire East Communities Inc. | | 153,037,732 | | 195,231,139 |
| Laguna Bel Air School, Inc. | | 63,217,474 | | 58,076,420 |
| Valle Verde Properties, Inc. | | 62,461,212 | | 62,833,696 |
| Sherman Oak Holdings Inc. | | 17,083,015 | | 18,410,790 |
| Sonoma Premier Land Inc. | | 7,360,647 | | 7,566,950 |
| **TOTAL** | **P** | **1,619,966,862** | **P** | **1,621,425,777** |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule D - Intangible Assets - Other Assets**
**December 31, 2013**

| | | | Deduction | | | |
|---|---|---|---|---|---|---|
| **Description** | **Beginning Balance** | **Additions at Cost** | **Charged to Cost and Expenses** | **Charged to Other Accounts** | **Other Changes Additions (Deductions)** | **Ending Balance** |
| Goodwill | P 78,326,757 | - | - | - | - | P 78,326,757 |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule E - Long-Term Debt**
**December 31, 2013**

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Amount Shown Under Caption"Current Portion of Long-term Debt" in Related Statement of Financial Position | Amount Shown Under Caption"Long-term Debt" in related Statement of Financial Position |
|---|---|---|---|
| **Loans** | **P 219,731,151** | **P 71,200,342** | **P 148,530,809** |

*Loans are payable up to 2017and bear interest at annual average rate of 7.8% to 10.5% per annum, subject to monthly repricing.*

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule F - Indebtedness to Related Parties (Other than Affiliates)**
**December 31, 2013**

| Name of Related Party | Balance at Beginning of Year | Balance at End of Year |
|---|---|---|
| Megaworld Corporation | P 2,324,428,182 | P 1,190,445,277 |
| Gilmore Property Marketing Association | 387,202,164 | 387,695,705 |
| Others | 38,963,001 | 65,213,002 |
| | P 2,750,593,347 | P 1,643,353,984 |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule H - Capital Stock**
**December 31, 2013**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding as Shown Under the Related Statement of Financial Position Caption | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | Number of Shares Held by: Related Parties | Number of Shares Held by: Directors, Officers and Employees | Number of Shares Held by: Others |
|---|---|---|---|---|---|---|
| Preferred shares | 2,000,000,000 | - | | | | |
| Common shares | 31,495,200,000 | 14,676,199,167 * | | 11,966,152,438 | | |

** Number of shares issued and outstanding net of 127,256,071 Treasury Shares.*

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Schedule of Relevant Financial Ratios as Required**
**Under SRC Rule 68, as amended**
**For the years ended December 31,2013 and 2012**
***(Amounts in Philippine Pesos)***

| | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|
| **I. Current/liquidity ratios** | | | | |
| a. Current Ratio | | | | |
| Total Current Assets | P 22,025,338,171 | P 21,979,496,671 | 3.93 | 3.11 |
| Total Current Liabilities | 5,605,368,953 | 7,061,859,427 | | |
| b. Quick Ratio | | | | |
| (Cash and Cash Equivalents + Trade and Other Receivables) | 3,484,037,646 | 5,623,811,963 | 0.62 | 0.80 |
| Total Current Liabilities | 5,605,368,953 | 7,061,859,427 | | |
| **II. Solvency ratios** | | | | |
| a. Solvency Ratio | | | | |
| (Earnings Before Interest and Taxes) | 587,723,568 | 395,020,988 | 0.07 | 0.04 |
| Total Liabilities | 8,161,285,477 | 9,695,119,563 | | |
| b. Debt-to-Equity Ratio | | | | |
| Total Liabilities | 8,161,285,477 | 9,695,119,563 | 0.33 | 0.44 |
| Total Equity | 24,789,953,923 | 22,279,564,417 | | |
| **III. Asset-to-equity ratio** | | | | |
| Total Assets | 32,951,239,400 | 31,974,683,980 | 1.33 | 1.44 |
| Total Equity | 24,789,953,923 | 22,279,564,417 | | |
| **IV. Interest Coverage Ratio** | | | | |
| (Earnings Before Interest and Taxes) | 587,723,568 | 395,020,988 | 4.12 | 3.09 |
| Interest Expense | 142,514,494 | 127,988,279 | | |
| **V. Profitability Ratios** | | | | |
| a. Net Profit Margin | | | | |
| Net Profit | 300,471,781 | 236,021,986 | 18% | 17% |
| Revenues | 1,705,620,061 | 1,381,413,611 | | |
| b. Return on Equity | | | | |
| Net profit | 300,471,781 | 236,021,986 | 1% | 1% |
| Average Equity | 23,534,759,170 | 20,656,011,079 | | |
| c. Return on Assets | | | | |
| Net profit | 300,471,781 | 236,021,986 | 1% | 1% |
| Average Assets | 32,462,961,690 | 28,842,788,246 | | |

**EMPIRE EAST LAND HOLDINGS, INC.**
***(A Subsidiary of Megaworld Corporation)***
**21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City**

**Reconciliation of Retained Earnings Available for Dividend Declaration**
**For the Year Ended December 31, 2013**

| | | | |
|---|---|---|---|
| **Unappropriated Retained Earnings at Beginning of Year, as restated** | | P | 2,849,133,766 |
| **Prior Years' Outstanding Reconciling Items, net of tax** | | | |
| Deferred tax income, as restated | | ( | 38,048,680 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted** | | | 2,811,085,086 |
| **Net Profit Realized during the Year** | | | 388,922,502 |
| **Net profit per audited financial statements** | | | |
| **Non-actual/unrealized income, net of tax** | | | |
| Deferred tax income | P 18,031,096 | | |
| Unrealized foreign currency gains | 5,775,947 | ( | 23,807,043 ) |
| **Retained Earnings Restricted for Treasury Shares** | | ( | 102,106,658 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at End of Year** | | **P** | **3,074,093,887** |

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
***(A Subsidiary of Megaworld Corporation)***
**Schedule of Philippine Financial Reporting Standards and Interpretations**
**Adopted by the Securities and Exchange Commission and the**
**Financial Reporting Standards Council as of December 31, 2013**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** | | ✓ | | |
| Conceptual Framework Phase A: Objectives and Qualitative Characteristics | | ✓ | | |
| **Practice Statement Management Commentary** | | | ✓ | |
| ***Philippine Financial Reporting Standards (PFRS)*** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | ✓ | | |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Government Loans | ✓ | | |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *(deferred application)* | | | ✓ |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments* *(effective January 1, 2015)* | | | ✓ |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective January 1, 2015)* | | | ✓ |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendment to PFRS 10: Transition Guidance | ✓ | | |
| | Amendment to PFRS 10: Investment Entities* *(effective January 1, 2014)* | | | ✓ |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendment to PFRS 11: Transition Guidance | ✓ | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendment to PFRS 12: Transition Guidance | ✓ | | |
| | Amendment to PFRS 12: Investment Entities* *(effective January 1, 2014)* | | | ✓ |
| **PFRS 13** | Fair Value Measurement | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| ***Philippine Accounting Standards (PAS)*** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | ✓ | | |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Revised)** | Employee Benefits | ✓ | | |
| | Amendment to PAS 19: Defined Benefit Plan - Employee Contributions* *(effective January 1, 2014)* | | | ✓ |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | ✓ | | |
| **PAS 27 (Revised)** | Separate Financial Statements | ✓ | | |
| | Amendment to PAS 27: Investment Entities* *(effective January 1, 2014)* | | | ✓ |
| **PAS 28 (Revised)** | Investments in Associates and Joint Ventures | ✓ | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32** | Financial Instruments: Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 32: Classification of Rights Issues | ✓ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2014)* | | | ✓ |

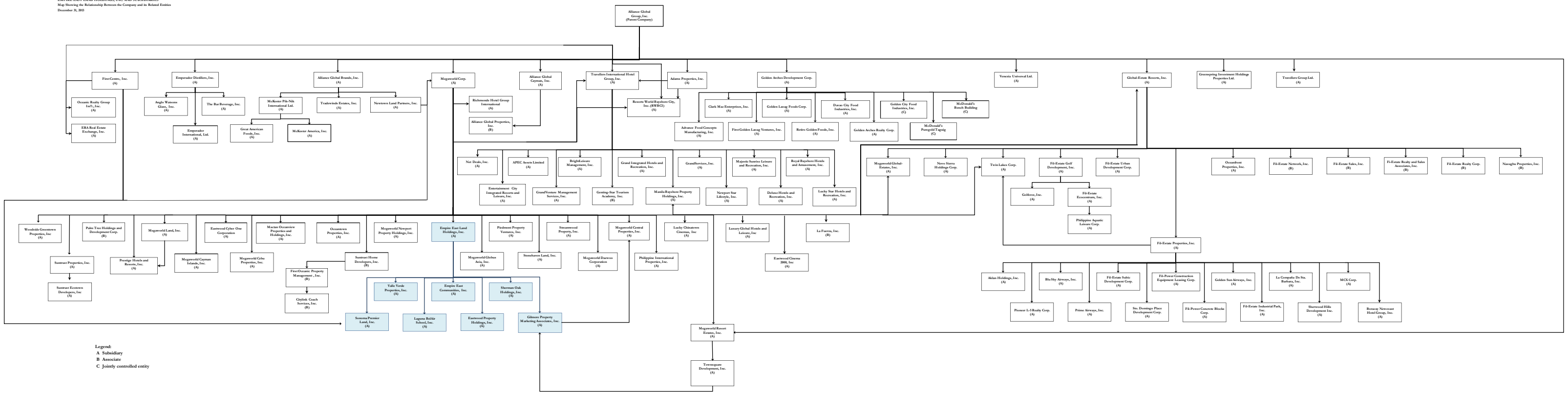
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets* *(effective January 1, 2014)* | | | ✓ |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | ✓ | | |
| | Amendments to PAS 39: The Fair Value Option | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | ✓ | | |
| | Amendment to PAS 39: Eligible Hedged Items | ✓ | | |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting* *(effective January 1, 2014)* | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| ***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)*** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities** | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** | ✓ | | |
| **IFRIC 6** | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives** | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives** | ✓ | | |
| **IFRIC 10** | Interim Financial Reporting and Impairment | ✓ | | |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction | ✓ | | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners** | ✓ | | |
| **IFRIC 18** | Transfers of Assets from Customers** | ✓ | | |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments** | ✓ | | |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies* *(effective January 1, 2014)* | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| *Philippine Interpretations - Standing Interpretations Committee (SIC)* | | | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | ✓ | | |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders** | ✓ | | |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services** | ✓ | | |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

* These standards will be effective for periods subsequent to 2013 and are not early adopted by the Group.

** These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
Map Showing the Relationship Between the Company and its Related Entities
December 31, 2013



Legend:
A Subsidiary
B Associate
C Jointly controlled entity

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**Summary of Application of SRO Proceeds**
**December 31, 2013**

| | BASED ON IPO PROSPECTUS | BASED ON ACTUAL |
|---|---|---|
| **SRO Proceeds** | P 2,695,239,834 | P 2,695,239,834 |
| **Less: SRO related expenses** | 5,239,834 | 5,239,834 |
| **Net proceeds** | 2,690,000,000 | 2,690,000,000 |
| **Less: Disbursements** | | |
| **Construction Site Development** | **1,800,000,000** | **1,872,825,309** |
| Pioneer Woodlands | 800,000,000 | 350,000,000 |
| San Lorenzo Place | 700,000,000 | 532,081,376 |
| The Rochester | 300,000,000 | 275,267,709 |
| Kasara | - | 128,304,666 |
| Sonoma | - | 70,000,000 |
| Little Baguio Terraces | - | 314,520,643 |
| South Science Park | - | 202,650,915 |
| **Landbanking** | **890,000,000** | **805,000,000** |
| **Total Disbursements** | 2,690,000,000 | 2,677,825,309 |
| **Remaining Balance of Proceeds, as at December 31, 2013** | | P 12,174,691 |

**Supplementary information on the Summary of Application of SRO Proceeds**

*The proceeds were subsequently reallocated and transferred to fund the urgent construction of other projects that have exceeded their respective allocations.*

# EMPIRE EAST LAND HOLDINGS, INC.
# INTERIM FINANCIAL STATEMENTS
# AS OF 31 MARCH 2014

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended **31 March 2014**

2. Commission Identification Number: **AS094-006430**

3. BIR Tax Identification No. **003-942-108**

4. **EMPIRE EAST LAND HOLDINGS, INC.**
   Exact name of issuer as specified in its charter

5. **Metro Manila**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code

7. **21st Floor, The World Centre**
   **330 Sen. Gil J. Puyat Avenue**
   **Makati City, Philippines 1227**
   Address of issuer's principal office

8. **(632) 867-8351 to 59**
   Issuer's telephone number, including area code

9. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common** | **14,676,199,167** |

10. Are any or all of the securities listed on a Stock Exchange?

    **Yes [X]** **No [ ]**

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

    **The shares of common stock of the Company are listed on the Philippine Stock Exchange.**

11. Indicate by check mark whether the issuer:

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

    **Yes [X]** No [ ]

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

**Yes [X]** No [ ]

## PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Interim financial statements are attached as Exhibits 1 to 6 hereof and incorporated herein by reference:

Exhibit 1 – Consolidated Statements of Financial Position as of December 31, 2013 and March 31, 2014
Exhibit 2 - Consolidated Statements of Comprehensive Income as of March 31, 2013 and March 31, 2014
Exhibit 3 - Comparative Statements of Changes in Equity as of March 31, 2013 and March 31, 2014
Exhibit 4 - Comparative Consolidated Statements of Cash Flows as of March 31, 2013 and March 31, 2014
Exhibit 5 - Notes to Financial Statements
Exhibit 6 - Aging of Accounts Receivable as of March 31, 2014

Item 2. Management's Discussion of Financial Condition and Results of Operations

Please refer to Exhibit 7 hereof.

Item 3. Schedule of Financial Soundness Indicators

Please refer to Exhibit 8 hereof.

## PART II – OTHER INFORMATION

The Company is not in possession of information which has not been previously reported in a report on SEC Form 17-C and with respect to which a report on SEC Form 17-C is required to be filed.

## SIGNATURE

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

**EMPIRE EAST LAND HOLDINGS, INC.**
Issuer

By:

**EVELYN G. CACHO**
Vice President for Finance (Principal Financial Officer) and Duly Authorized Officer
May 14, 2014

**EXHIBIT 1**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(In thousand pesos)**

| | Unaudited 31-Mar-14 | Audited 31-Dec-13 |
|---|---|---|
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | P 996,922 | P 504,471 |
| Trade and other receivables - net | 3,169,278 | 2,979,566 |
| Residential and condominium units for sale | 12,934,448 | 12,824,660 |
| Property development costs | 4,495,465 | 2,902,643 |
| Advances to related parties | 2,054,361 | 2,053,792 |
| Prepayments and other current assets | 866,370 | 760,206 |
| Total Current Assets | 24,516,844 | 22,025,338 |
| **NON-CURRENT ASSETS** | | |
| Trade and other receivables - net | 2,702,180 | 2,421,692 |
| Advances to landowners and joint ventures | 823,668 | 787,075 |
| Available-for-sale financial assets | 3,209,100 | 2,905,080 |
| Land held for future development | 2,582,345 | 4,088,300 |
| Investment in associates | 296,622 | 293,372 |
| Investment property - net | 181,351 | 185,553 |
| Property and equipment - net | 157,668 | 160,370 |
| Other non-current assets | 84,357 | 84,459 |
| Total Non-current Assets | 10,037,291 | 10,925,901 |
| **TOTAL ASSETS** | P 34,554,135 | P 32,951,239 |

| | Unaudited 31-Mar-14 | Audited 31-Dec-13 |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Interest-bearing loans and borrowings | **P 66,341** | P 71,200 |
| Trade and other payables | **798,612** | 438,133 |
| Income tax payable | **7,377** | 7,267 |
| Deferred gross profit on real estate sales | **64,456** | 49,704 |
| Customers' deposits | **3,634,409** | 2,957,369 |
| Advances from related parties | **1,715,201** | 1,643,354 |
| Reserve for property development | **129,443** | 132,642 |
| Other current liabilities | **322,174** | 305,700 |
| Total Current Liabilities | **6,738,013** | 5,605,369 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing loans and borrowings | **131,894** | 148,531 |
| Reserve for property development | **901,428** | 815,739 |
| Deferred tax liabilities | **1,211,683** | 1,177,480 |
| Deferred gross profit on real estate sales | **113,506** | 125,286 |
| Retirement benefit obligation | **289,405** | 288,880 |
| Total Non-current Liabilities | **2,647,916** | 2,555,917 |
| Total Liabilities | **9,385,929** | 8,161,285 |
| **EQUITY** | | |
| Equity attributable to parent company's shareholders | **24,554,522** | 24,176,546 |
| Non-controlling interest | **613,684** | 613,408 |
| Total Equity | **25,168,206** | 24,789,954 |
| **TOTAL LIABILITIES AND EQUITY** | **P 34,554,135** | P 32,951,239 |

EXHIBIT 2

## EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | (In Thousands) | |
|---|---|---|
| | **Unaudited Jan-March 2014** | Unaudited Jan-March 2013 |
| **REVENUES** | | |
| Real estate sales | **P 670,555** | P 557,089 |
| Realized gross profit on prior years' sales | **25,082** | 40,613 |
| Finance Income | **67,772** | 76,212 |
| Equity share in net earnings of an associate | **3,250** | 25,979 |
| Commissions & other income | **98,328** | 89,703 |
| | **864,987** | 789,596 |
| **COST & EXPENSES** | | |
| Cost of real estate sales | **447,280** | 353,424 |
| Deferred gross profit on current year's sales | **28,054** | 48,461 |
| Finance costs | **26,898** | 38,715 |
| Operating expenses | **253,911** | 282,283 |
| Tax expense | **34,612** | 16,388 |
| | **790,755** | 739,271 |
| **NET PROFIT** | **74,232** | 50,325 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Fair value gains (losses) on available-for-sale financial assets | **304,020** | 531,814 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **378,252** | 582,139 |
| **Net profit attributable to:** | | |
| Parent company's shareholders | **73,956** | 49,995 |
| Minority interes | **276** | 330 |
| | **74,232** | 50,325 |
| **Total comprehensive income (loss) attributable to:** | | |
| Parent company's shareholders | **377,976** | 581,809 |
| Non-controlling interest | **276** | 330 |
| | **378,252** | 582,139 |
| **Earnings Per Share** | | |
| Basic | **0.0050** | 0.0037 |
| Diluted | **0.0050** | 0.0037 |

EXHIBIT 3

## EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
### COMPARATIVE STATEMENTS OF CHANGES IN EQUITY

| | ( In Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | | **Unaudited** | | | Unaudited (Restated) | |
| | | **31-Mar-2014** | | | 31-Mar-2013 | |
| **CAPITAL STOCK** | | **P** | **14,803,455** | | P | 13,603,455 |
| **ADDITIONAL PAID-IN CAPITAL** | | | **4,307,888** | | | 4,247,888 |
| **TREASURY SHARES** | | | **(102,107)** | | | (102,107) |
| **REVALUATION RESERVES** | | | | | | |
| **Balance at beginning of year** | **1,980,516** | | | 1,030,386 | | |
| **Net Unrealized fair value gains (losses) on available-for-sale financial assets** | **304,020** | | | 531,814 | | |
| **Balance at end of period** | | | **2,284,536** | | | 1,562,200 |
| **RETAINED EARNINGS** | | | **3,260,750** | | | 2,937,321 |
| **MINORITY INTEREST** | | | **613,684** | | | 612,946 |
| **TOTAL EQUITY** | | **P** | **25,168,206** | | P | 22,861,702 |

**EXHIBIT 4**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousand pesos)**

| | **Unaudited 31-Mar-14** | Unaudited (Restated) 31-Mar-13 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before tax | **P 108,844** | **P 66,712** |
| Adjustments for: | | |
| Depreciation and amortization | **9,438** | 9,066 |
| Finance costs | **26,898** | 38,715 |
| Finance income | **(67,772)** | (76,212) |
| Equity in net earnings of associates | **(3,250)** | - |
| Operating income before working capital changes | **74,158** | 38,281 |
| Net Changes in Operating Assets and Liabilities | | |
| Increase in current and non-current assets | **(781,400)** | (872,648) |
| (Decrease) Increase in current and other non-current liabilities | **1,106,463** | (322,251) |
| Increase in reserve for property development | **82,490** | 125,296 |
| Cash used in operations | **481,711** | (1,031,322) |
| Interest received | **38,545** | 32,232 |
| Cash paid for income taxes | **(30)** | (7,997) |
| Net Cash Used in Operating Activities | **520,226** | (1,007,087) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **(2,255)** | 4,835 |
| **CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES** | **(25,520)** | (102,612) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **492,451** | (1,104,864) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **504,471** | 3,033,223 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **P 996,922** | **P 1,928,359** |

EXHIBIT 5

# EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
*(A Subsidiary of Megaworld Corporation)*
**NOTES TO INTERIM FINANCIAL STATEMENTS**
**FOR THE 3 MONTHS ENDED MARCH 31, 2014, AND 2013**
**(UNAUDITED)**
*(Amounts in Philippine Pesos)*

## 1. CORPORATE INFORMATION

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

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

The Company holds ownership interests in the following entities:

| Subsidiaries/ Associates | Explanatory Notes | Percentage of Ownership March 2014 | 2013 |
|---|---|---|---|
| Subsidiaries: | | | |
| Eastwood Property Holdings, Inc. (EPHI) | (a) | 100% | 100% |
| Valle Verde Properties, Inc. (VVPI) | (b) | 100% | 100% |
| Sherman Oak Holdings, Inc. (SOHI) | (c) | 100% | 100% |
| Empire East Communities, Inc. (EECI) | (d) | 100% | 100% |
| Laguna BelAir Science School, Inc. (LBASSI) | (e) | 73% | 73% |
| Sonoma Premier Land, Inc. (SPLI) | (f) | 60% | 60% |
| Associates: | | | |
| Gilmore Property Marketing Associate, Inc. (GPMAI) | (g) | 47% | 47% |

Explanatory Notes:

(a) Subsidiary incorporated in 1996 and serves as the marketing arm of the Company for the latter's projects, as well as those of other related parties.

(b) Subsidiary incorporated in 2006; additional shares were acquired in November 2008 through assignment of shares from a third party.

(c) Subsidiary incorporated in 2007; shares acquired through assignment of shares from Yorkshire Holdings Inc., a related party, in January 2008.

(d) Subsidiary incorporated in 2008 to primarily engage in the purchase, development, sale and lease of real properties but is currently engaged in the marketing of real estate properties.

(e) Subsidiary incorporated in 1996 to primarily engage in operating a school for primary and secondary education.
(f) Subsidiary incorporated in 2007 as a holding entity to primarily engage in the development and marketing of all kinds of real estate. Additional shares were acquired from First Centro, Inc. in March and June 2008.
(g) Entity incorporated in 1996. In 2012, the entity was deconsolidated and treated as an associate of the Company.

The place of incorporation, which is similar with the place of operation of the Company's subsidiaries and affiliates, are located at 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City except EPHI, LBASI and SPI. The place of incorporation as well as the principal place of business of EPHI, LBASI and SPI are summarized below.

*(a)* EPHI – 28th Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City
*(b)* LBASSI – Brgy. Don Jose, Sta. Rosa, Laguna

In 2013, the Company sold its 33% ownership interest in SPI to Megaworld. A total of 315,000,008 shares were sold for a total consideration of P471.2 million. As a result of the sale, SPI ceased to be an associate of the Company.

In 2012, GPMAI issued additional 5,000,000 shares of stock at P1 par value which were purchased by a third party. As a result, the percentage of ownership of the Company over GPMAI was reduced from 52% to 47%.

Starting June 2011, the Company became a subsidiary of Megaworld. In June 2013, the Company issued additional 1.2 billion common shares to its parent, Megaworld for a price of P1.26 billion.

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

The registered office of the Company is located at the 21st Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City. Megaworld's registered office is on the 28th Floor of the same building. On the other hand, AGI's registered office is located at the 7th Floor 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriquez Jr. Avenue, Bagumbayan, Quezon City. These entities' registered offices are also their respective principal places of business.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### *2.1 Basis of Preparation of Consolidated Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (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 expenses in a single statement of comprehensive income.

*(c) Functional and Presentation Currency*

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

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

*(a) Effective in 2014 that are Relevant to the Company*

There are new PFRS, amendments, annual improvements and interpretations 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 financial statements:

(i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from 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 provided characteristics of a gross settlement system 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 its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.

(iv) PFRS 9, *Financial Instruments: Classification and Measurement*. 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 in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities.

The Group does not expect to implement and adopt PFRS 9 until its effective date. 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.

(v) Philippine 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 Securities and Exchange Commission 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.

(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 amendments 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)*

*(a)* PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

*(b)* PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that 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.

*(c)* PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

*(d)* 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)*

*(a)* PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

*(b)* 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 definitions of financial assets or financial liabilities as defined in PAS 32.

*(c)* 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 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.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

### 3.1 *Critical Judgments in Applying Accounting Policies*

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

*(a) Impairment of AFS Financial Assets*

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

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

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely 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 Group's main line of business while land held for future development are properties intended solely for future development.

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

*(c) Distinction between Operating and Finance Leases*

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

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

*(d) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies.

### *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 financial year:

*(a) Determining Net Realizable Value of Residential and Condominium Units for Sale, Property Development Costs and Land Held for Future Development*

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

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

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

*(c) Impairment of Trade and Other Receivables and Advances to Landowners and Joint Ventures*

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 counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience.

*(d) Fair Value Measurements of Financial Instruments*

The Group carries certain financial assets at fair value, which are classified as Level 1 fair values as these investments are traded in the stock market. As such, no significant accounting estimates and judgment was made on its FVTPL and AFS financial assets.

(e) *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.

(f) *Impairment of Non-financial Assets*

The Group's interest in its Non-financial Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Though management believes that the assumptions used in the estimation of fair values 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.

(g) *Valuation of Post-Employment Defined Benefit*

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

(h) *Revenue Recognition Based on 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 to date as a proportion of the total budgeted cost of the project.

(i) *Basis for Revenue Recognition Benchmark*

The Group recognizes its revenue in full when a certain percentage of the net contract price is received. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history of customers and number of back out sales in prior years. A buyer's interest in the property is considered to have vested when a defined percentage of the net contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

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

Investment Property is measured using the cost model. 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 investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting periods.

## 4. SEGMENT REPORTING

### *4.1 Business Segments*

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

### *4.2 Segment Assets and Liabilities*

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

### *4.3 Intersegment Transactions*

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

### *4.4 Analysis of Segment Information*

The following tables present the revenue and profit information regarding industry segments for the three months ended March 31, 2014 and 2013 and certain assets and liabilities information regarding industry segments as of March 31, 2014 and December 31, 2013.

| | High Rise Projects | | Horizontal Projects | | Total | |
|---|---|---|---|---|---|---|
| | **March 31, 2014** | March 31, 2013 | **March 31, 2014** | March 31, 2013 | **March 31, 2014** | March 31, 2013 |
| **REVENUES** | | | | | | |
| Real estate sales | **P 589,113,311** | P 488,470,131 | **P 81,441,468** | P 68,618,952 | **P 670,554,779** | P 557,089,083 |
| Realized gross profit on prior years' sale | **25,082,388** | 40,613,298 | - | - | **25,082,388** | 40,613,298 |
| Finance income | **37,090,147** | 32,418,716 | **1,454,416** | ( 186,914) | **38,544,563** | 32,231,802 |
| **Commission &** Other income | **50,022,119** | 24,752,810 | **8,870,447** | 2,089,851 | **58,892,566** | 26,842,661 |
| Total revenues | **701,307,965** | 586,254,955 | **91,766,331** | 70,521,889 | **793,074,296** | 656,776,844 |
| **COSTS AND OTHER OPERATING EXPENSES** | | | | | | |
| Cost of real estate sales | **405,313,644** | 316,070,297 | **41,966,804** | 37,354,187 | **447,280,448** | 353,424,484 |
| Deferred gross profit on current year's sales | 23,871,916 | 37,063,990 | **4,182,341** | 11,397,193 | 28,054,257 | 48,461,183 |
| Operating expenses | 83,170,475 | 104,661,866 | 20,960,277 | 27,827,933 | 104,130,752 | 132,489,799 |
| Cost and other operating expenses excluding depreciation and amortization | **512,356,035** | 457,796,153 | **67,109,422** | 76,579,313 | **579,465,457** | 534,376,466 |
| Depreciation and amortization | **828,665** | 907,742 | **3,494,791** | 3,523,893 | **4,323,456** | 4,431,635 |
| | **513,184,700** | 458,703,895 | **70,604,213** | 80,103,206 | **583,788,913** | 538,807,101 |
| **SEGMENT OPERATING PROFIT (LOSS)** | **P 188,123,265** | P 127,551,060 | **P 21,162,118** | (P 9,581,317) | **P 209,285,383** | P 117,969,743 |

| | High Rise Projects | | Horizontal Projects | | Total | |
|---|---|---|---|---|---|---|
| | **March 31, 2014** | December 31, 2013 | **March 31, 2014** | December 31, 2013 | **March 31, 2014** | December 31, 2013 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | **P 14,490,357,798** | P 14,074,551,368 | **P 5,682,392,561** | P 4,990,407,147 | **P 20,172,750,359** | P 19,064,958,515 |
| Segment liabilities | 875,519,223 | 798,100,218 | **333,313,785** | 325,270,520 | **1,208,833,008** | 1,123,370,738 |

### 4.5 *Reconciliations*

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

| | Mar. 31, 2014 | Mar. 31, 2013 |
|---|---|---|
| **Revenues** | | |
| Total segment revenues | **P 793,074,296** | P 656,776,844 |
| Other unallocated revenues | **71,912,529** | 132,819,258 |
| Revenues as reported in profit or loss | **P 864,986,825** | P 789,596,102 |
| **Profit or loss** | | |
| Segment operating profit | **P 209,285,383** | P 117,969,743 |
| Other unallocated income | **71,912,529** | 132,819,258 |
| Other unallocated expense | **( 172,353,771)** | ( 184,076,570) |
| Profit before tax as reported in profit or loss | **P 108,844,141** | P 66,712,431 |

| | Mar. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Assets** | | |
| Segment assets | **P 20,172,750,359** | P 19,064,958,515 |
| Unallocated assets | **14,381,384,594** | 13,886,280,885 |
| Total assets as reported in the consolidated statements of financial position | **P 34,554,134,953** | P 32,951,239,400 |
| **Liabilities** | | |
| Segment liabilities | **P 1,208,833,008** | P 1,123,370,739 |
| Unallocated liabilities | **8,177,095,872** | 7,037,914,738 |
| Total liabilities as reported in the consolidated statements of financial position | **P 9,385,928,880** | P 8,161,285,477 |

## 5. STOCK RIGHT

On April 24, 2012, the Company's BOD approved the offer for subscription of 2,695,239,833 new shares (the "right shares") by way of a pre-emptive offer (the "rights offer") to holders of its common shares at the proportion of one new share for every four existing common shares, at the offer/exercise price equivalent to their par value of P1 per share. This was approved by SEC on August 30, 2012.

Also, on April 24, 2012, the BOD approved the increase in the Company's authorized capital stock from P23.5 billion divided into 21.5 billion common and 2 billion preferred shares both with par value of P1 each, to P33.5 billion divided into 31.5 billion common and 2 billion preferred shares both with par value of P1 per share. The application for the increase in authorized capital stock was approved by the SEC on October 17, 2012.

As of March 31, 2014, the Company's number of shares issued and outstanding totaled 14,803,455,238 with total Treasury Stock of 127,256,071.

## 6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profits attributable to parent company's shareholders divided by the weighted average number of shares in issue during the period.

Earnings per share amounts were computed as follows:

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Weighted average number of shares | **14,676,199,167** | 13,476,199,167 |
| Income available to parent company's Shareholders | **P 73,956,120** | P 49,994,631 |
| Basic | **P 0.0050** | P 0.0037 |
| Diluted | **P 0.0050** | P 0.0037 |

## 7. COMMITMENTS AND REAL ESTATE PROPERTIES

There were no material contingencies and any other events or transactions that have material impact on the current interim period. There were no issuances, repurchases, and repayments of debt on the current interim period.

## 8. SEASONAL FLUCTUATIONS

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the group.

## 9. ASSESSMENT OF FINANCIAL RISKS

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

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 below.

### *9.1) Foreign Currency Sensitivity*

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

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are closely monitored.

The Group's U.S.-dollar denominated financial assets, translated into Philippine pesos amounted to P75.6 million as of March 31, 2014.

At March 31, 2014, if the peso had strengthened by 2% against the U.S. dollar with all other variables held constant, income before tax for the year would have been P1.8 million lower, mainly as a result of foreign exchange loss on translation of U.S. dollar-denominated cash and cash equivalents.

On the other hand, if the peso had been weaker by the same percentage, with all other variables held constant, income before tax would have been higher by the same amount.

The 2% movement in the value of peso against U.S. dollar was estimated based on the market volatility in exchange rates. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the reporting period.

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

### *9.2) Interest Rate Sensitivity*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises only from cash and cash equivalents, which are subject to variable interest rates. Financial assets and liabilities at variable rates expose the group to cash flow interest rate risk. All other financial assets and liabilities have fixed rates.

On March 31, 2014, if general interest rates on dollar and peso-denominated financial assets had been higher by 0.23%, with all other variables held constant, income before tax for the year would have been P2.5 million higher, mainly as a result of higher interest income on floating rate deposits.

The movements in interest rates used in the sensitivity analysis are considered reasonably possible and are based on observation of interest rate fluctuations for the past six months using a 95%-confidence level. The calculations are based on the Group's financial instruments held at each reporting period, with effect estimated from the beginning of the year.

### *9.3) Credit Risk*

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of financial position, as summarized below.

| | **As of Mar. 31,2014** | As of Dec. 31, 2013 |
|---|---|---|
| Cash and cash equivalents | **P 996,922,090** | P 504,471,331 |
| Trade and other receivables - net | **4,833,807,203** | 4,535,668,171 |
| Advances to related parties | **2,054,360,781** | 2,053,791,774 |
| | **P 7,885,090,074** | P 7,093,931,276 |

The credit risk for liquid funds is considered negligible, since the counter parties are reputable banks with high quality external credit ratings. In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counter party or any group of counter parties having similar characteristics.

The Group continuously monitors defaults of customers and other counter parties, 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 counter parties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

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

### *9.4) Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-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 are 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 at March 31, 2014, the Group's financial liabilities have contractual maturities which are presented below:

| | Within 6 Months | 1 to 5 Years |
|---|---|---|
| Interest-bearing loans and borrowings | P 66,341,090 | P 131,894,170 |
| Trade and other payables | 667,241,957 | - |
| Advances from related parties | 1,715,201,037 | - |
| Other current liabilities | 315,058,488 | - |
| | P 2,763,842,572 | P 131,894,170 |

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows:

| | Within 6 Months | 1 to 5 Years |
|---|---|---|
| Interest-bearing loans and borrowings | P 46,718,976 | P 217,927,707 |
| Trade and other payables | 377,303,492 | - |
| Advances from related parties | 1,643,353,984 | - |
| Other current liabilities | 287,912,670 | - |
| | P 2,355,289,122 | P 217,927,707 |

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

### 9.5) *Other Market Price Risk*

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

At March 31, 2014, if the quoted stock price for the securities had decreased by 3.2% with all other variables held constant, equity would have been lower by about P101.3 million. The 3.2% estimated change in quoted market price is computed based on volatility of local index for holdings first listed at Philippine Stock Exchange.

On the other hand, if the quoted market price for these securities had increased by the same amount, with all other variables held constant, equity for the year would have been higher by the same figure.

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

## 10. FINANCIAL INSTRUMENTS EVALUATION

Financial assets include cash and financial instruments. The Group classifies its financial assets, other than hedging instruments, into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale 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. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

*Cash and cash equivalents* are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Regular purchase and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the statements of comprehensive income.

The foregoing categories of financial instruments are more fully described below.

### *10.1) Financial Assets at Fair Value through Profit or Loss*

This category includes financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as 'held for trading' unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the reporting period.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally are designated as financial assets at fair value through profit or loss may not be subsequently be reclassified.

### *10.2) 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 any impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Group 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 cash flows.

The Group's loans and receivables are presented as Trade and other receivables, Advances to landowners and joint ventures, and Advances to related parties in the statements of financial position.

*10.3) Held-to-maturity Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. They are included in non-current assets in the statements of financial position, except those maturing within 12 months of the reporting period.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

*10.4) Available-for-sale Financial Assets*

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

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the statements of comprehensive income when they are sold or when the investment is impaired.

In the case of impairment, any loss previously recognized in equity is transferred to the statements of comprehensive income. Impairment losses recognized in the statements of comprehensive income on equity securities are not reversed through the statements to comprehensive income. Losses recognized in prior year statements of comprehensive income resulting from the impairment of debt instruments are reversed through the statements of comprehensive income.

For investment that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices in the stock exchange 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 and other cash flows resulting from holding financial assets are recognized in consolidated profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

De-recognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

The Group has no investment in foreign securities as of reporting period. The markets of the Group's Available-for-sale financial assets are active.

**EXHIBIT 6**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

## RESULTS OF OPERATIONS

Review of March 31, 2014 versus March 31, 2013

During the three-month period, the consolidated net profit amounted to P74.2 million, 48% higher than the previous year's net income of P50.3 million. Consolidated revenues, composed of real estate sales, realized gross profit, finance income, earnings of associates, commissions and other revenues posted an increase of 10% from P789.6 million to P865.0 million.

Real Estate Sales

The Group registered Real Estate Sales of P670.6 million for three months ended March 31, 2014 compared with P557.1 million in 2013. The sales generated were derived from various projects including, San Lorenzo Place, Pioneer Woodlands, The Sonoma, The Rochester Gardens, The Cambridge Village, California Gardens Square, Kasara Urban Resort Residences and Laguna Bel Air Projects.

The Cost of Real Estate Sales amounting to P447.3 million in 2014 and P353.4 million in 2013, as a percentage of Real Estate Sales, was 67% and 63%, respectively. The change was primarily due to the different composition of products sold for each year.

Gross Profit was P223.3 million during the three months of 2014 and P203.7 million in 2013, or 33% and 37% of Real Estate Sales, respectively. The gross profit margin varies depending on the product mix and the competitiveness of prices of each product. Realized Gross Profit amounting to P220.3 million in 2014 and P195.8 million in 2013, represents 33% and 35% of Real Estate Sales, respectively.

Other Revenues

The finance income amounting to P67.8 million and P76.2 million in 2014 and 2013 respectively, were derived mostly from in-house financing and accounts for 8% and 10% of total revenues. Additional sources of revenue were commissions of a subsidiary, rentals of investment properties and those obtained from other sources. Commission and other income totaling P98.3 million in 2014 and P89.7 million in 2013, represents 11% of total revenues in 2014 and 2013.

Operating Expenses

Operating Expenses posted a decrease from P282.3 million in 2013 to P253.9 million in 2014. Other charges/expenses include Finance Cost of P26.9 million and P38.7 million in 2014 and 2013, respectively.

## FINANCIAL CONDITION

Review of March 31, 2014 versus December 31, 2013

Total resources of the Group as of March 31, 2014 and December 31, 2013 amounted to P34.6 billion and P33.0 billion respectively. Cash and Cash Equivalents increased from P504.5 million to P996.9 million. The Group remained liquid with Total Current Assets of P24.5 billion in 2014 and P22.0 billion in 2013, which accounted for 71% and 67% of the Total Assets in 2014 and 2013 respectively, while its Total Current Liabilities amounted to P6.7 billion in March 31, 2014 as compared with P5.6 billion in December 31, 2013.

Equity increased from P24.8 billion in the previous year to P25.2 billion as of March 31, 2014 due to revaluation of equity investments and net income for the 3-month period.

For the three months of 2014, the Group sourced its major cash requirements from internally generated funds, and partly from borrowings.

For 2013, the Group sourced its major cash requirements from internally generated funds, subscription proceeds, disposal and sale of investment in associate and partly from borrowings.

The Group utilized its funds for construction and development of projects, purchase of properties, loan repayments, settlement of various payables and other operating expenses.

## TOP FIVE (5) KEY PERFORMANCE INDICATORS

For the three-month period of 2014, the following are top key performance indicators of the Group:

1) **Increase in Real Estate Sales**

   The Group's marketing concepts and sales strategies, project location, flexible payment scheme and aggressive selling have contributed to the increase in sales. The Group's new projects are connected to mass transit system and are conveniently located in business districts of Metro Manila

2) **Increase in Reservation Sales**

Effective marketing concepts and strategies, aggressive selling and prime location of projects contributed to the increase in reservation sales and collections.

3) **Ability to repay loan obligations**

The loan obligations were promptly settled. The Group maintains a good credit standing with creditor banks and has considerable standby credit facilities, which can be utilized for urgent capital requirements.

4) **Continuous development of projects**

The Group aggressively undertakes construction and development activities and has been exerting efforts to deliver its projects within the commitment timetable.

5) **Landbanking**

The Group has been continuously acquiring interests in properties through either outright acquisitions or joint venture arrangements with landowners. It intends to have sufficient properties for development within the next 5 to 7 years.

Material Changes in the 2014 Interim Financial Statements
(Increase or decrease of 5% or more versus December 31, 2013)

Statements of Financial Position

- 98% increase in Cash and cash equivalents
  Mainly due to increase in reservation sales and collections from various projects

- 9% increase in Trade and other receivables
  Due to increase in real estate sales

- 55% increase in Property development cost
  Due to ongoing construction and development activities

- 14% increase in Prepayments and other current assets
  Mainly due to increase in prepaid taxes related to transfer of titles

- 5% increase in Advances to landowners and joint venture
  Pertains to project-related advances

- 37% decrease in Land held for future development
  Mainly due to reclassification of land to property development cost

- 10% increase in Available-for-sale financial assets
  Primarily due to increase in fair market value of investment in securities held by a subsidiary

- 10% decrease in Interest-bearing loans and borrowings
  Due to payment of loans

- 82% increase in Trade and other payables
  Various payables to contractors and suppliers due to increasing construction activities

- 23% increase in Customers' deposits
  Mainly due to increase in reservation sales and collection from various projects

- 9% increase in Reserve for property development
  Pertains to estimated cost to complete the construction/development of sold units

- 5% increase in Other current liabilities
  Due to increase in retention payable to suppliers and contractors

Statements of Income

- 20% increase in Real estate sales
  Due to aggressive selling of projects

- 38% decrease in Realized gross profit on prior years' sale
  Due to construction accomplishment of certain projects

- 11% decrease in Finance income
  Primarily due to varying payment terms of accounts under in-house financing

- 87% decrease in Equity in net earnings of associates
  Primarily due to sale of the Group's stake in associate

- 10% increase in Commission and other income
  Mainly due to increase in revenues derived from other related sources

- 27% increase in Cost of real estate sales
  Mainly attributed to increase in sales

- 42% decrease in Deferred gross profit on current year's sales
  Mainly due to construction accomplishments of ongoing projects

- 31% decrease in Finance costs
  Mainly due to repayments of loans

- 10% decrease in Operating expenses
  Due to decrease in marketing and administrative expenses

- 111% increase in Tax expense
  Mainly due to increase in taxable income

For the year 2014, the projected capital expenditures (construction and development) of roughly P4.0 billion is expected to be funded by collections, borrowings and equity financing.

Fluctuations in foreign exchange rate had no adverse effect on the Group's financial conditions since the Group has very minimal importations of construction-related materials and have no foreign denominated loans.

There are no other material changes in the Group's financial position and condition (5% or more) that will warrant a more detailed discussion. Likewise, there are no material events and uncertainties known to the management that would have material impact on reported financial information and normal operations of the Group.

The nature of all revenues and expenses disclosed in the statements of comprehensive income are business related transactions and arose from the Group's continuing operations. Also, no prior period adjustment was made during any period covered by the statements of financial position.

There are no material off-statements of financial condition transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

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

The Group is aggressively marketing its products specially the new projects. It continuously offers competitive prices, more lenient payment schemes under in-house financing and has strong tie-ups with reputable banks for the financing requirements of its buyers.

**Exhibit 7**

**EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES**
**As of March 31, 2014**
**Amounts in thousands**

**1) Aging of Accounts Receivable**

| Type of Receivables | Total | Current Not Yet Due | Not More Than 3 Months | Not More Than 6 Months | Not More Than 12 Months | More than 12 Months | Past due accounts & Items in Litigation |
|---|---|---|---|---|---|---|---|
| a) Trade Receivables | 3,581,204 | 3,174,632 | 65,411 | 109,561 | 172,278 | 59,323 | - |
| b) Other Receivables | 2,290,253 | 2,290,253 | - | - | - | - | - |
| Net Receivables | 5,871,457 | | | | | | |

**2) Accounts Receivable Description**

| Type of Receivables | Nature/Description | Collection Period |
|---|---|---|
| a) Trade Receivables | Sale of residential units/lots | maximum of 10 years |
| b) Other Receivables | Advances to contractors/suppliers | 1 to 2 years |

**3) Normal Operating Cycle:** 3 to 15 years

**EXHIBIT 8**

## EMPIRE EAST LAND HOLDINGS, INC. AND SUBSIDIARIES
### SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

| | **31-Mar-2014** | 31-Dec-2013 |
|---|---|---|
| Current ratio | **3.64** | 3.93 |
| Quick ratio | **0.62** | 0.62 |
| Debt-to-equity ratio | **0.37** | 0.33 |
| Interest-bearing debt to total capitalization ratio | **0.01** | 0.01 |
| Asset-to-equity ratio | **1.37** | 1.33 |
| | | 31-Mar-2013 |
| Interest rate coverage ratio | **505%** | 272% |
| Net profit margin | **8.58%** | 6.37% |
| Return on assets | **0.22%** | 0.17% |
| Return on equity/investment | **0.29%** | 0.22% |
| Return on equity/investment of owners | **0.30%** | 0.22% |

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.
Current ratio - computed as current assets divided by current liabilities
Quick ratio - computed as cash, marketable securities, accounts receivable divided by current liabilitites

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term-debt.
Debt-to-equity ratio-computed as total liabilities divided by total equity.
Interest-bearing debt to total capitalization ratio-computed as interest-bearing debt divided by interest-bearing debt plus stockholder's equity attributable to controlling interest.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency.
It shows how much of the assets are owned by the company. It is computed as total assets divided by total equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments.
It is computed as earnings before income tax and interest expense ("EBIT") divided by interest.

PROFITABILITY RATIOS
Net profit margin - computed as net profit divided by total revenues
Return on assets - net profit divided by average total assets
Return on investment - net profit divided by total stockholders' equity
Return on investment of equity owners - net profit attributable to owners of the parent divided by equity attributable to owners of the parent company