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The Eton logo, featuring a stylized 'E' icon to the left of the word 'ETON' in a bold, sans-serif font.

ETON

## ANNUAL REPORT 2012

### MISSION

We are a leading full range property developer of world-class, iconic and eco-friendly projects that provide customer satisfaction and value-for-money. Our actions are guided by integrity, passion for excellence, innovation and teamwork.

### VISION

We will be one of the country's top 5 developers. Synonymous to prestige, we aim to be the employer of choice, the best managed company, and the preferred brand in the real estate industry.

### VALUES

Integrity  
Innovation  
Passion for Excellence  
Customer Focus  
Teamwork





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# FINANCIAL HIGHLIGHTS

## Statements of Income

(In Million Pesos)	2012	2011
Revenue	2,694.71	5,191.65
Cost and Expenses	2,643.77	4,510.68
Other Income	58.35	170.87
Income Before Income Tax	109.29	851.84
Provision For (Benefit From) Income Tax	67.25	118.55
<b>Net Income</b>	<b>42.04</b>	<b>733.29</b>

## Statements of Financial Position

(In Million Pesos)	As of December 31, 2012	As of December 31, 2011
Current Assets	10,253.97	6,892.89
Non-Current Assets	7,951.37	8,422.01
<b>Total Assets</b>	<b>18,205.34</b>	<b>15,314.90</b>
Current Liabilities	9,181.46	7,766.62
Non-Current Liabilities	2,279.92	1,420.00
Total Liabilities	11,461.38	9,186.62
Equity	6,743.96	6,128.28
<b>Total Liabilities and Equity</b>	<b>18,205.34</b>	<b>15,314.90</b>



The year 2012 was a banner year for the Philippine economy recording significant growth at 6.6%, even amidst a worsening debt crisis in Europe and the sluggish performance of advance economies around the world. Strong macroeconomic fundamentals, increased foreign investments and higher remittances from overseas Filipino workers sustained the Philippine economy's growth. The real estate industry likewise expanded in 2012 as developers achieved record sales for residential projects and added to their product portfolio more commercial, leisure and office developments.

Against the industry's stellar performance, rental revenues sustained our growth as a result of the completion of Cyberpod Centris Two and the full year lease contribution of all our other commercial developments. All completed BPO offices are fully leased to top corporations and multinational companies. Our commercial centers likewise enjoy high occupancy rates and strong sales from its various residential projects.

With over 40 developments encompassing residential, commercial, office and township projects in major urban centers and growth areas, our Company remains committed to its mission of building innovative homes as well as communities and inspiring landscapes for the Filipino family. We intend to launch new residential and commercial projects in major urban centers in the Metropolis. Despite a highly competitive business environment, we face 2013 with a lot of hope and reaffirmed dedication. With another challenging year, we express the firm resolve to study further our product mix for more recurring income and ensure prudent financial management for guaranteed growth.

I would like to thank our Board of Directors and shareholders for their continued support. My deep appreciation likewise extends to our officers and staff for their dedication and hard work. Together we shall achieve more milestones and greater heights for a more robust Eton Properties in the coming years.

Mabuhay!



Dr. Lucio C. Tan  
*Chairman*





# MANAGEMENT REPORT

2012 was an exciting year for the Philippines. In spite of the external pressures of a lagging US economy and the financial struggles of the Euro zone, the Philippine economy proved resilient and expanded at one of the fastest growth rates not only in Asia but also in the world. As a testament to this achievement, the Philippines gained its first investment-grade credit rating early in 2013.

Against this backdrop, Eton Properties Philippines achieved reservation sales of P5.5 billion, driven by strong residential sales of existing projects. Realized revenues, in 2012 slid, however, to P2.7 billion, due to the deferred recognition of sales in projects that have yet to commence construction. During 2012, construction of a number of projects has been moved back to give way to significant enhancements that will improve the projects' overall value. Eton uses the percentage-of-completion method in recognizing residential project revenues. Rental income from commercial centers and BPO office buildings increased by 32 percent to P406 million from last year's P307 million. All of the completed office buildings are fully leased to top corporations and Fortune 500 companies. An additional 65,000 sqm of BPO office space with Cyberpod Centris Three came on stream. High occupancy rates at Centris Walk, Centris Station, Green Podium and E-Life all contributed to the growth of the commercial leasing business.

Total assets grew by close to 20 percent as some high-rise buildings' construction were completed and as more investment properties, developments for leasing, were recognized. Construction activities for Aurora Heights Residences, First Homes Makati and West Wing Villas were moved back to incorporate design improvements and enhancements. The changes range from road widths to building façade improvements to add value to the projects. Aurora Heights Residences and First Homes Makati are high rise projects launched under Eton's brand for the broad affordable market, First Homes. West Wing Villas is a project under Belton Communities, a brand catering to the mid-market segment.

In the first half of the year, Eton completed and started turnover activities in two of its first high-rise condominiums Belton Place and the two-tower development One Archers Place. Belton Place is a 39-storey prime residential condominium strategically located just steps from Makati's two main thoroughfares of Ayala and Gil Puyat avenues. One Archers Place is a twin-tower 31-storey residential condominium located beside De La Salle University along Taft Avenue in Manila.

During the second half of the year, three more high-rise projects – Eton Emerald Lofts, Eton Parkview Greenbelt and The Eton Residences Greenbelt, were completed. Eton Emerald Lofts is a prime all-loft address located at the heart of Ortigas Center. The Eton Residences Greenbelt is a 38-storey luxury residential condominium located right in front of the Greenbelt complex while Eton Parkview Greenbelt is situated in front of the Washington Sycip and Legaspi Parks, just steps away from the Greenbelt complex.

Likewise, construction went on full swing on the 7th, 8th, 9th and 10th buildings of The Manors at North Belton Communities in Quezon City, an enclave featuring 14 5-storey mid-rise buildings under the Belton Communities brand. 2013 will see the construction of its 11th cluster.

We also focused on developing and improving our two township projects, Eton City and Eton Centris. Eton City is envisioned to be a world-class city featuring residential projects catering to various market segments, a dynamic business district and leisure destinations. Construction of Village Walk, the first commercial center to rise in the sprawling 1,000 hectare community has started. The commercial strip will soon house a mix of retail stores, restaurants, boutiques, service-oriented shops and lifestyle options. Turnover of the island lots and house construction is ongoing at South Lake Village, the country's first residential island lot development inspired by waterfront communities found abroad. Exciting outdoor activities like kite flying, biking, jogging, running and water activities like fishing, kayaking, boating and

water biking offer refreshing relaxation that give a glimpse of exceptional lakeside living. Construction of the South Lake Village Clubhouse is in full swing. Family-centered activities at the ActivFunZone continue to engage families and visitors in fun and wholesome recreation. The completed show house at Ibiza Island gives a glimpse of how luxurious comfort and modern living can be best enjoyed at a South Lake Village dream home.

Eton Centris is a 12-hectare township development situated at the corner of two major thoroughfares – EDSA and Quezon Avenue. The master planned project consists of a mix of residential towers, offices and commercial centers, completing the integrated work-live-play concept. Construction of the third BPO office building in Eton Centris called Cyberpod Centris Three is currently in progress. The township is fast becoming a major convergence point in Quezon City. Centris Walk and Centris Station continue to attract a growing market in the area with its dynamic lifestyle and unique shopping experience and its weekend markets are attracting huge crowds every week. Centris Elements is now the preferred events venue for various celebrations, intimate gatherings and corporate activities. Cyberpod Centris One and Two are now home to some of the world's top outsourcing firms. Early this year, we broke ground on One Centris Place, the first residential development in the township.

For 2013, Eton will introduce more market-responsive projects in various locations. We are in the planning stage for new projects in Makati, Quezon City, San Juan and Binondo. We will continue to ride on the growth of the BPO sector by expanding our office and commercial property portfolio. The LT Group's huge land bank provides us with ready access to a wide array of choice properties for launching new projects in strategic locations. We look forward to 2013 with renewed optimism and excitement. Guided by strong corporate values, sound business strategies and backed up by a supportive Board of Directors, dedicated Management team and staff, coupled with reliable business partners, Eton Properties expects to be a major force to reckon with in the property sector. Thank you once again for your selfless support all these years.



Lucio K. Tan, Jr.  
*Officer In Charge*







**Eton Properties Philippines, Inc.**

Realizing the dream of home ownership is the promise of our brands. From luxurious residences to well-designed condos and villas to affordable Move-In Ready™ units, innovation is at the forefront of Eton Properties Philippines.



### Eton – A brand of luxury

Eton is synonymous to iconic and prime real-estate projects that go beyond the usual. To deliver distinctive landmark developments for the market's discerning taste is the company's goal. We distinguish our brand by developing creative and innovative building ideas to lavish our clients with comfort and surprise them with fresh ideas.







Eton City is the flagship project of Eton Properties Philippines. Its 1,000 hectares is carefully master planned to be the township of choice in Sta. Rosa, Laguna, a fast emerging business growth center that maintains its suburban feel. Conveniently located along the South Luzon Expressway, its advantageous location provides residents easy access to various business zones such as Alabang, Makati and Taguig. Eton City showcases unique enclaves meant for diverse markets. It will also soon house a vibrant commercial strip and will be home to a world-class business district.

*Eton City* is envisioned to be a self-sustaining community complete with all the necessities for an active, well-rounded and privileged lifestyle.



#### *South Lake Village at Eton City*

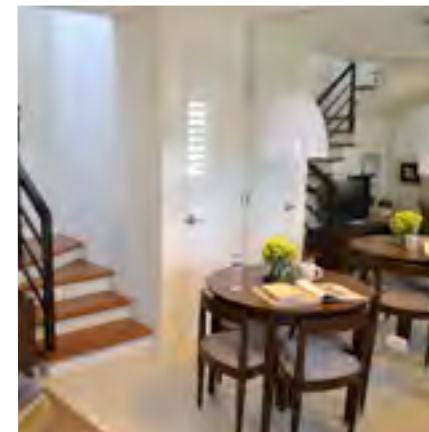
Eton established its image as the luxury brand of choice by developing South Lake Village at the heart of Eton City. Inspired by world-class waterfront cities found abroad, South Lake Village is the country's first residential island lot development. It features 16 exclusive islands situated in a 35-hectare man-made lake with lot sizes ranging from 400 to 1,200 square meters.



*RiverBend* is the second residential project in Eton City. With sizes ranging from 180 to 290 square meters, 279 lot-only units will soon be the home of growing families who seek comfort in a suburban setting. Now fully-sold out, the project owes its success to its prime location, amenities and features such as underground utilities that give residents a wire-free skyline.



*West Wing Residences at Eton City* is strategically located in Sta. Rosa, Laguna to capture the interest of middle-income families who prefer to live in the South. The community has a suburban feel but maintains a nature-inspired living environment. One hectare of the project will be devoted to amenities that will include a clubhouse, swimming pool, basketball court, children's playground and an extensive outdoor field for sports activities.



*TierraBela* is the fourth residential community in Eton City. This 18-hectare development is strategically located alongside a main road in Eton City and near a future University site. The Italian-inspired community, sold as lots-only, devotes a large portion of land to greens and wide open spaces. Residents will also enjoy modern conveniences such as perimeter trail, underground utilities and centralized water system.



*Village Walk at Eton City* is a modern commercial district adjacent to South Lake Village that will offer conveniences to Eton City residents. Village Walk will soon showcase a mix of retail stores and service oriented shops that will address the everyday needs of the community.







Seen as the gateway to Quezon City's emerging Triangle Park Central Business District, Eton Centris is a 12-hectare mixed-use township development within the new business hub.

Following the live, work and play concept, Eton Centris will be a complete development offering a fully-integrated lifestyle. Eton supports the Quezon City government's vision to develop the 250-hectare Triangle Park CBD into a globally-competitive business district and the largest CBD in Manila.

Eton Centris boasts of 600 meters of frontage along EDSA. It is situated at the corner of two major thoroughfares – EDSA and Quezon Avenue - making it a strategic and preferred convergence point in Quezon City.

#### *Living at Eton Centris*

The first residential project within the township is One Centris Place. Master planned for two towers, the high-rise condominium will offer top notch amenities



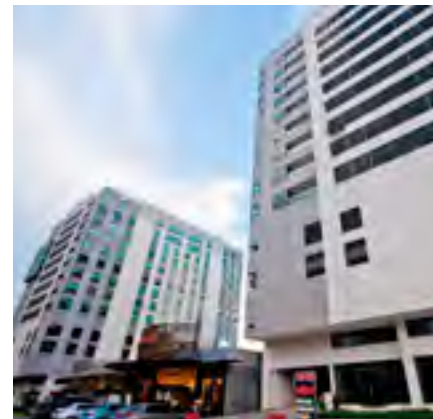
such as an adult lap pool and kiddie pool, a well-equipped fitness gym, children's play area and open green spaces. The ground floor of One Centris Place will also house commercial establishments.

Living at One Centris Place and within Eton Centris provides easy access to various destinations in the metro through Centris Station, a community mall that is directly connected to the MRT Station. Residents will also enjoy myriad ways to unwind through dining and leisure options offered by Centris Walk.



#### *Working at Eton Centris*

Within Eton Centris are BPO office buildings Cyberpod Centris One and Cyberpod Centris Two. Construction of Cyberpod Centris Three is now in full swing. These offices are specifically designed to fit the requirements of BPO and Information Technology firms. The first two BPO towers now house some of the top corporations and multinational companies in the country.



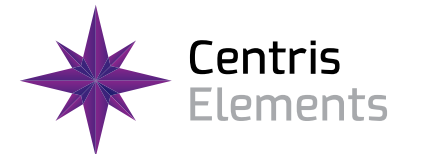
#### *Playing at Eton Centris*

Centris Walk is Quezon City's newest lifestyle, dining and entertainment hub. Its unique mix of dining choices is meant to excite foodies in the metro. Centris Walk also offers family-oriented activities and specialty shops.



#### *Shopping at Eton Centris*

Centris Station is a one-stop-shop two-level commercial center. It has a direct link to the Quezon Avenue MRT Station and features a number of transport options reaching various destinations. Aside from SM Hypermart as its anchor tenant, Centris Station also hosts a wide array of restaurants, fast food chains and service-oriented shops.



#### *Celebrating Milestones at Eton Centris*

Centris Elements is a modern events venue suitable for weddings, birthdays and other treasured family gatherings as well as concerts, business functions, product launches and other corporate events. It has two fully air-conditioned halls that can accommodate 350 guests and can be merged to hold 700 people for bigger assemblies. Likewise, Elements also has two smaller halls for seminars, business meetings and other intimate affairs.



Centris Walk – Quezon City's newest dining, entertainment and lifestyle hub situated at the heart of Eton Centris



RESIDENTIAL PROJECTS

Eton's high rise condominiums are specially designed to support its residents active lifestyle. Its exciting amenities and features are the makings of a perfect haven for the modern homeowner. These innovative residential projects are situated in the choicest locations in the metro such as Manila, Makati, Ortigas and Quezon City.



THE ETON RESIDENCES  
GREENBELT

Makati





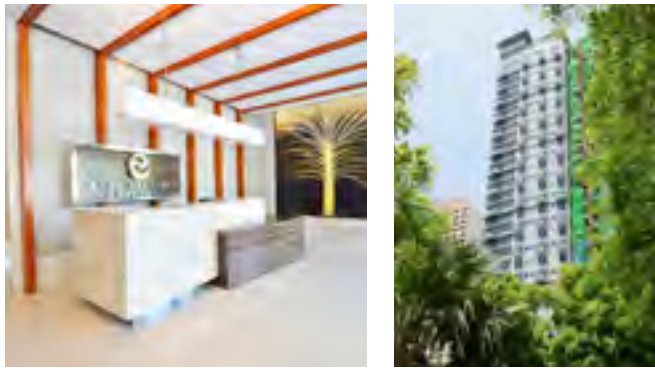
ETON TOWER  
MAKATI





ETON PARKVIEW  
GREENBELT

Makati





BELTON PLACE  
MAKATI





ETON EMERALD LOFTS  
Ortigas





One Archers  
PLACE  
MANILA





One Centris  
Place  
Quezon City





ETON BAYPARK MANILA



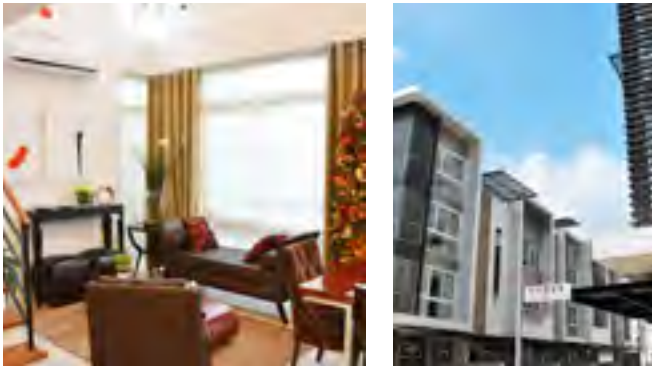


ADRIATICO  
Manila





ROCES  
Quezon City







Staying true to its commitment of providing quality homes for every Filipino, Eton introduced Belton Communities - a brand that caters to the mid-market segment. From well-located communities to exciting amenities and features, its projects are ideal for families who want a home that they can proudly call their own.

Belton Communities' first foray in creating a family-centric neighborhood is North Belton Communities - a 10.8 hectare development consisting of three residential enclaves: The Manors, West Wing Residences and West Wing Villas.

North Belton Communities is a sweet retreat. By living in the quieter side of Quezon City, you can reside in a peaceful environment and still enjoy the perks of city living. It is 10 minutes away from lifestyle destinations such as Eton Centris, SM North Edsa and Trinoma. In front of the property will rise a commercial center managed by SM. Schools such as UP Diliman, Miriam College, Ateneo de Manila University and St. James College are also nearby. The project is accessible through major thoroughfares such as EDSA, NLEX, Quirino Highway, Tandang Sora and Congressional Road.



*The Manors* features 14 clusters of 5-storey mid-rise condominiums perfect for young professionals and start-up families. The 3.3 hectare property offers studio, 2 & 3 bedroom units. The first 7 clusters are already completed and 3 clusters are under construction.



*West Wing Residences* offers 2 & 3 bedroom units inspired by modern American architecture. The 2.2 hectare development was turned into 120 prime residential units ranging from 60 to 96 square meters in size.



*West Wing Villas* is a haven for bigger families. Its 5.2 hectares of land were utilized to offer 3 to 6 bedroom house and lot units.



*West Wing Residences at Eton City* offers 2 & 3 bedroom American contemporary-inspired homes in an ideal location south of Manila. One hectare of the 20-hectare development is devoted to exclusive amenities that will include a village clubhouse, a multi-purpose area, adult and kids' swimming pools, an open field, a village eco-park, an oval running track and a gym. Eton City in Sta. Rosa, Laguna is a suburban paradise where future residents can have access to the best schools, hospitals, business and leisure centers that Sta. Rosa has to offer.



*West Wing Tropics* is the latest venture of Belton Communities. It is an 8.6 hectare subdivision nestled in one of the last remaining prime properties of Quezon City. Residents can choose from 2 or 3 bedroom house models and bask in well-designed amenities and features fit for growing families. West Wing Tropics offers a nature-inspired living environment and urban conveniences through its proximity to schools, hospitals and lifestyle centers. It is 5 minutes away from SM City Novaliches.



The Manors  
at North Belton Communities







Move-In Ready™ units take center stage in Eton Properties’ First Homes brand. Catering to the broad affordable market segment, First Homes offers innovatively-designed and fully-furnished compact condominium units in prime locations such as Makati and Quezon City. First Homes projects offer amenities and features that support the active lifestyle of its residents. Among these are a large clubhouse with receiving area for guests, adult and kiddie swimming pools, a landscaped garden and retail outlets that serve everyday needs and essentials. Truly a value-for-money choice for first time home buyers and investors.



*Aurora Heights Residences* is strategically-located near schools, hospitals and malls. This 21-storey transit-oriented residential condominium boasts of its high investment value because of its location and well-designed units and furnishings. It is just 5 minutes away from the LRT Katipunan station.



*First Homes Makati* is just a few steps away from the Makati Central Business District and Makati’s lifestyle hubs, making it an ideal home for on-the-go professionals and a wise venture for investors. Master planned for two towers, First Homes is located at the corner of Chino Roces Avenue and Malugay Streets.







More than providing a happy home, Eton Properties celebrates life's little pleasures by developing vibrant commercial centers that offer exciting leisure activities. Located within its townships and residential developments, Eton's commercial and retail hubs offer residents and clients a well-rounded lifestyle.

*Centris Walk*, strategically located at the heart of Eton Centris, is Quezon City's newest dining, entertainment and lifestyle district offering an interesting mix of dining options, recreation activities and lifestyle shops.



*Centris Station* is designed to provide an accessible venue to grab everyday essentials. Anchored by SM Hypermarket and a number of specialty and service-oriented stores, the two-level transit-oriented mall has direct access to the Quezon Avenue

MRT Station and public transport reaching various destinations.



*E-Life* is a retail hub in Eton Cyberpod Corinthian – a busy BPO complex in Ortigas Center. Featuring an exciting mix of fast food chains, service-oriented shops and specialty stores, E-Life caters to professionals with active lifestyles.



*Green Podium* is a two-level commercial complex dedicated to the multitude of students of educational institutions along Taft Avenue and Manila's university belt. It is located within One Archers Place, a two-tower high rise condominium project situated beside De La Salle University.







Following the continuous rise and success of the Business Process Outsourcing (BPO) sector in the Philippines, Eton Properties develops offices that cater to the specific needs of BPO companies. Designed to support extensive IT-based operations, EPPI's BPO offices are granted special economic zone status by the Philippine Economic Zone Authority (PEZA). More than supplying the particular requirements of the industry, EPPI's BPO towers also boast of its strategic and transit-oriented locations and retail stores that complement the 24/7 operations of the outsourcing trade.

Cyberpod Centris One and Cyberpod Centris Two are the first BPO office buildings in Eton Centris, conveniently lined along EDSA. The two BPO towers are now fully-leased to some of the country's top corporations and BPO firms. Cyberpod Centris One houses Genpact, Integrim, Price Solutions Philippines, Inc., Pascual Laboratories, WiPro and Unisys. Hewlett Packard on the other hand, will occupy the entire Cyberpod Centris Two.

Eton Cyberpod Corinthian is a three-building BPO office development situated at the corner of EDSA and Ortigas Avenue. It is near several transportation options that make it ideal for commuting employees.



Cyberpod Centris One and Cyberpod Centris Two – the first BPO office buildings in Eton Centris.



Turnover Date: Starts October 2014



Turnover Date: Started May 2012



Turnover Date: Starts September 2014



Turnover Date: Starts July 2013





## BOARD OF DIRECTORS

Wilson T. Young

Reynaldo A. Maclang

Michael G. Tan

Harry C. Tan

Lucio K. Tan, Jr.

Juanita T. Tan Lee

Wilfrido E. Sanchez

Antonino L. Alindogan, Jr.

Ma. Cecilia L. Pesayco

Erolyne C. Go



Dr. Lucio C. Tan  
*Chairman*

Chairman of LT Group, Inc. (formerly Tanduary Holdings, Inc.), Philippine Airlines, Inc., Asia Brewery, Inc., Fortune Tobacco Corp., PMFTC, Inc., Grandspan Development Corp., Himmel Industries, Inc., Lucky Travel Corp., PAL Holdings, Inc., Tanduary Distillers, Inc., Tanduary Brands International, Inc., The Charter House, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Manufacturing Services & Trade Corp., REM Development Corp., Foremost Farms, Inc., Basic Holdings Corp., Dominion Realty & Construction Corp., Shareholdings, Inc., Sipalay Trading Corp. and Fortune Tobacco International Corp.; Director of Philippine National Bank; majority stockholder of Allied Banking Corporation and Century Park Hotel

Harry C. Tan  
*Vice Chairman*

Vice Chairman of LT Group, Inc. (formerly Tanduary Holdings, Inc.), Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Pan Asia Securities, Inc. and Lucky Travel Corp.; Vice Chairman/Treasurer of Philippine Airlines, Inc.; Managing Director of The Charter House, Inc.; Director/Chairman for the Tobacco Board of Fortune Tobacco Corp.; Director/President of Century Park Hotel and Landcom Realty Corp.; Director of Philippine National Bank, Asia Brewery, Inc., Basic Holdings Corp., PAL Holdings, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Manufacturing Services & Trade Corp.,

PMFTC, Inc., REM Development Corp., Grandspan Development Corp., Dominion Realty & Construction Corp., Fortune Tobacco International Corp., Shareholdings, Inc., Sipalay Trading Corp., Tanduary Brands International, Inc. and Tanduary Distillers, Inc.

Lucio K. Tan, Jr.  
*Director*  
Appointed Officer-in-Charge on  
21 February 2013

Director/President of Tanduary Distillers, Inc.; Director/EVP of Fortune Tobacco Corp.; Director of Allied Bankers Insurance Corp., Philippine Airlines, Inc., Philippine National Bank, PAL Holdings, Inc., LT Group, Inc. (formerly Tanduary Holdings, Inc.), MacroAsia Corporation, PMFTC, Inc., Lucky Travel Corp., Air Philippines Corporation, Tanduary Brands International, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Eton City, Inc., Belton Communities, Inc., REM Development Corporation, Grandspan Development Corporation, Dominion Realty & Construction Corp., Manufacturing Services & Trade Corp., Fortune Tobacco International Corp. and Shareholdings, Inc.

Michael G. Tan  
*Director*  
Appointed Officer-in-Charge on 19 March 2012

Director/President of LT Group, Inc. (formerly Tanduary Holdings, Inc.); Director/Chief Operating Officer of Asia Brewery, Inc.; Director of Philippine National Bank, Allied Bankers Insurance Corp., PMFTC, Inc., Grandway

Konstruk, Inc., Lucky Travel Corp., Philippine Airlines, Inc., Philippine Airlines Foundation, Inc., PAL Holdings, Inc., Tanduary Brands International, Inc., Absolut Distillers, Inc., Eton City, Inc., Victorias Milling Company, Inc. and Shareholdings, Inc.; Director and Treasurer of Air Philippines Corporation

Juanita T. Tan Lee  
*Director and Treasurer*

Director of LT Group, Inc. (formerly Tanduary Holdings, Inc.); Director/Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Dominion Realty and Construction Corp. and Shareholdings, Inc.; Corporate Secretary of Asian Alcohol Corp., Absolut Distillers, Inc., The Charter House, Inc., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco Int'l Corp., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., Manufacturing Services & Trade Corp., Marcuenco Realty & Development Corp., PMFTC, Inc., Progressive Farms, Inc., REM Development Corp., Tanduary Distillers, Inc., Tanduary Brands International, Inc., Tobacco Recyclers Corp., Total Bulk Corp., Zebra Holdings, Inc.; Assistant Corporate Secretary of Basic Holdings Corp.

Wilson T. Young  
*Director*

Director of LT Group, Inc. (formerly Tanduary Holdings, Inc.); Director/President of Tanduary Brands International, Inc.; Chief Operating Officer of Tanduary Distillers, Inc.; Chief Operating Officer of Asian Alcohol Corp., Absolut Distillers, Inc. and Total Bulk Corp.; Director of Flor De Caña Shipping, Inc.;

Chairman of Victorias Milling Co., Inc.; Vice Chairman of the Board of Trustees of UERM Medical Center; Board of Trustees Member of the University of the East

Reynaldo A. Maclang  
*Director*

Director of Philippine National Bank, Allied Savings Bank and Allied Leasing and Finance Corp.; Former President of Allied Banking Corporation

Antonino L. Alindogan, Jr.  
*Independent Director*

Chairman of An-Cor Holdings, Inc.; Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Rizal Commercial Banking Corp., PAL Holdings, Inc., House of Investments, Inc., Great Life Financial Assurance Corp. and Bankard, Inc.; Former President of C55, Inc.; Former Chairman of the Board of Directors of Development Bank of the Philippines (DBP); Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of Bangko Sentral ng Pilipinas

Wilfrido E. Sanchez  
*Independent Director*

Tax Counsel of Quiason Makalintal Barot Torres Ibarra & Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., House of Investments, JVR Foundation, Inc., Kawasaki Motor Corp.,

LT Group, Inc. (formerly Tanduary Holdings, Inc.), Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Rizal Commercial Banking Corporation, Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc. and Universal Rubina Corp.

Ma. Cecilia L. Pesayco  
*Corporate Secretary*

Corporate Secretary of LT Group, Inc. (formerly Tanduary Holdings, Inc.), Allied Savings Bank, Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc. and East Silverlane Realty and Development Corp.; Assistant Corporate Secretary of PAL Holdings, Inc. and Air Philippines Corporation; former Corporate Secretary of Allied Banking Corporation

Erolyne C. Go  
*Assistant Corporate Secretary*

Legal Counsel of Basic Holdings Corporation and Assistant Corporate Secretary of LT Group, Inc. (formerly Tanduary Holdings, Inc.)

*\*Not in photo are Mr. Danilo E. Ignacio and Mr. Domingo T. Chua. Mr. Ignacio served as Director and President from 21 February 2007 to 19 March 2012 while Mr. Chua served as Director from 21 February 2007 to October 2012.*

Dr. Lucio C. Tan





Emmanuel D. Pablo  
*Vice President  
for Brokers Group*

Atty. Renato L. Gonzales  
*Vice President for Legal*

Jesus S. Recasata III  
*Head of Sales*

Engr. Nathaniel I. Cabungcal  
*Vice President  
for Property Management*

Alvin C. Tan  
*Vice President for Purchasing  
and Logistics*

Ma. Irma B. Tan  
*Vice President for Corporate Planning  
and Risk Management*

Cecilia M. Magugat  
*Vice President  
for Sales Support*

Erwin M. De Pedro  
*Vice President  
for Marketing*

Christine L. Ong  
*Vice President  
for Treasury*

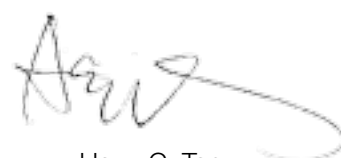


## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Eton Properties Philippines, Inc. and its subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated 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 consolidated financial statements and submits the same to the stockholders.

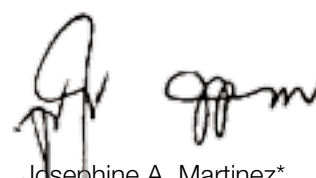
SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.



Harry C. Tan  
Vice Chairman



Lucio K. Tan, Jr.  
Director – Officer In Charge



Josephine A. Martinez\*  
Chief Finance Officer

\*Ms. Josephine A. Martinez served as Chief Finance Officer from July 12, 2010 to May 6, 2013.



SyCip Gorres Velayo & Co.  
6760 Ayala Avenue  
1226 Makati City  
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Phone: (632) 891 0307  
Fax: (632) 819 0872  
www.sgv.com.ph  
BOA/PRC Reg. No. 0001,  
December 28, 2012, valid until December 31, 2015  
SEC Accreditation No. 0012-FR-3 (Group A),  
November 15, 2012, valid until November 16, 2015

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Eton Properties Philippines, Inc.

We have audited the accompanying consolidated financial statements of Eton Properties Philippines, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, 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.

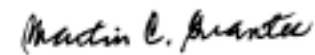
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 financial position of Eton Properties Philippines, Inc. and Subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

**SYCIP GORRES VELAYO & CO.**


Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-2 (Group A),

March 15, 2012, valid until March 14, 2015

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3669687, January 2, 2013, Makati City

March 4, 2013

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

	December 31	
	2012	2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 5 and 28)	<b>P720,565,330</b>	P594,787,078
Trade and other receivables (Notes 6 and 28)	<b>1,789,973,340</b>	1,901,217,813
Real estate inventories (Note 7)	<b>6,192,109,320</b>	3,289,982,329
Other current assets (Notes 8 and 28)	<b>1,551,318,782</b>	1,106,902,957
<b>Total Current Assets</b>	<b>10,253,966,772</b>	6,892,890,177
<b>Noncurrent Assets</b>		
Receivables - net of current portion (Notes 6 and 28)	<b>874,289,535</b>	2,052,868,887
Investment properties (Note 9)	<b>6,539,672,867</b>	5,928,275,327
Property and equipment (Note 10)	<b>68,564,601</b>	54,252,483
Deferred income tax assets - net (Note 22)	<b>210,732,372</b>	145,086,165
Other noncurrent assets (Notes 11 and 28)	<b>258,113,118</b>	241,523,346
<b>Total Noncurrent Assets</b>	<b>7,951,372,493</b>	8,422,006,208
<b>TOTAL ASSETS</b>	<b>P18,205,339,265</b>	P15,314,896,385
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Notes 12 and 28)	<b>P3,562,151,939</b>	P3,872,137,080
Payables to related parties (Note 25)	<b>260,669,359</b>	614,304,617
Income tax payable	<b>—</b>	37,725,771
Customers' deposits (Note 13)	<b>2,576,196,889</b>	1,744,780,410
Current portion of:		
Loans payable (Notes 14 and 28)	<b>2,734,065,576</b>	1,447,150,795
Deposits and other current liabilities (Notes 16 and 28)	<b>48,371,355</b>	50,522,329
<b>Total Current Liabilities</b>	<b>9,181,455,118</b>	7,766,621,002
<b>Noncurrent Liabilities</b>		
Loans payable - net of current portion (Notes 14 and 28)	<b>894,217,997</b>	1,343,778,818
Payables to landowners (Note 15)	<b>1,296,785,000</b>	—
Other noncurrent liabilities (Notes 16 and 28)	<b>88,912,882</b>	76,222,950
<b>Total Noncurrent Liabilities</b>	<b>2,279,915,879</b>	1,420,001,768
<b>Total Liabilities</b>	<b>11,461,370,997</b>	9,186,622,770
<b>Equity</b>		
Capital stock - P1 par value (Note 17)		
Issued and fully paid	<b>2,905,348,701</b>	723,798,267
Subscribed (net of subscriptions receivable		
amounting to nil in 2012 and P573,657,672 in 2011)	<b>—</b>	1,607,892,762
Additional paid-in capital (Note 17)	<b>2,400,000,000</b>	2,400,000,000
Retained earnings (Note 17)	<b>1,438,627,522</b>	1,396,590,541
Treasury shares (Note 17)	<b>(7,955)</b>	(7,955)
<b>Total Equity</b>	<b>6,743,968,268</b>	6,128,273,615
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P18,205,339,265</b>	P15,314,896,385

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2012	2011	2010
<b>REVENUE</b>			
Real estate sales	<b>P2,288,951,599</b>	P4,884,774,211	P4,282,939,433
Rental income (Notes 9, 16 and 23)	<b>405,757,690</b>	306,877,063	167,136,751
	<b>2,694,709,289</b>	5,191,651,274	4,450,076,184
<b>COST AND EXPENSES</b>			
Cost of real estate sales (Note 7)	<b>1,692,201,965</b>	3,500,504,637	3,117,019,613
Cost of rental income (Note 9)	<b>149,777,011</b>	111,675,885	57,865,115
Selling expenses (Note 19)	<b>308,560,403</b>	472,282,615	377,352,717
General and administrative expenses (Note 20)	<b>493,232,865</b>	426,214,333	179,951,057
	<b>2,643,772,244</b>	4,510,677,470	3,732,188,502
<b>OTHER INCOME (CHARGES)</b>			
Interest income (Notes 6 and 18)	<b>54,221,553</b>	40,746,477	85,250,024
Finance charges (Notes 14 and 16)	<b>(72,353,764)</b>	(9,486,336)	(11,711,618)
Foreign exchange gains (losses) - net	<b>12,358,405</b>	36,922	(4,810,079)
Gain on sale of available-for-sale (AFS) financial asset	—	—	42,536,210
Other income (Note 24)	<b>64,127,735</b>	139,575,528	140,610,209
	<b>58,353,929</b>	170,872,591	251,874,746
<b>INCOME BEFORE INCOME TAX</b>	<b>109,290,974</b>	851,846,395	969,762,428
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 22)			
Current	<b>132,900,200</b>	144,255,434	100,387,698
Deferred	<b>(65,646,207)</b>	(25,700,187)	137,762,776
	<b>67,253,993</b>	118,555,247	238,150,474
<b>NET INCOME</b>	<b>P42,036,981</b>	P733,291,148	P731,611,954
<b>BASIC EARNINGS PER SHARE</b> (Note 27)	<b>P0.0145</b>	P0.3719	P0.5605
<b>DILUTED EARNINGS PER SHARE</b> (Note 27)	<b>P0.0145</b>	P0.2524	P0.2518

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2012	2011	2010
<b>NET INCOME</b>	<b>P42,036,981</b>	P733,291,148	P731,611,954
<b>OTHER COMPREHENSIVE INCOME</b>			
Unrealized gain on AFS financial asset	—	—	17,494,684
Unrealized gain on changes in fair values of AFS financial asset transferred to profit or loss	—	—	(42,891,851)
	—	—	(25,397,167)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P42,036,981</b>	P733,291,148	P706,214,787

See accompanying Notes to Consolidated Financial Statements.



**ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**

	Capital Stock - P1 Par Value (Note 17)						Unrealized		Retained		Total
	Issued	Subscribed		Additional Paid-in Capital (Note 17)	Deposit for Future Stock Subscription (Note 17)	Gain on AFS Financial Asset		Earnings (Deficit) (Note 17)		Treasury Shares (Note 17)	
		Total	Receivable			Net					
<b>BALANCES AS AT DECEMBER 31, 2009</b>	<b>P723,798,267</b>	<b>P581,550,434</b>	<b>(P573,657,672)</b>	<b>P7,892,762</b>	<b>P-</b>	<b>P3,953,169,000</b>	<b>P25,397,167</b>	<b>(P68,312,561)</b>	<b>(P7,955)</b>	<b>P4,641,936,680</b>	
Net income for the year	—	—	—	—	—	—	—	731,611,954	—	731,611,954	
Other comprehensive income:											
Changes in fair value during the year	—	—	—	—	—	—	17,494,684	—	—	17,494,684	
Unrealized gain on changes in fair value transferred to profit or loss during the year	—	—	—	—	—	—	(42,891,851)	—	—	(42,891,851)	
Total comprehensive income (loss)	—	—	—	—	—	—	(25,397,167)	731,611,954	—	706,214,787	
<b>BALANCES AS AT DECEMBER 31, 2010</b>	<b>723,798,267</b>	<b>581,550,434</b>	<b>(573,657,672)</b>	<b>7,892,762</b>	—	<b>3,953,169,000</b>	—	<b>663,299,393</b>	<b>(7,955)</b>	<b>5,348,151,467</b>	
Net income for the year	—	—	—	—	—	—	—	733,291,148	—	733,291,148	
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	
Total comprehensive income	—	—	—	—	—	—	—	733,291,148	—	733,291,148	
Adjustment to land acquired through issuance of shares (Notes 7 and 17)	—	—	—	—	—	46,831,000	—	—	—	46,831,000	
Reclassification of deposit for future stock subscription to subscribed capital stock (Note 17)	—	1,600,000,000	—	1,600,000,000	2,400,000,000	(4,000,000,000)	—	—	—	—	
<b>BALANCES AS AT DECEMBER 31, 2011</b>	<b>723,798,267</b>	<b>2,181,550,434</b>	<b>(573,657,672)</b>	<b>1,607,892,762</b>	<b>2,400,000,000</b>	—	—	<b>1,396,590,541</b>	<b>(7,955)</b>	<b>6,128,273,615</b>	
Net income for the year	—	—	—	—	—	—	—	42,036,981	—	42,036,981	
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	
Total comprehensive income	—	—	—	—	—	—	—	42,036,981	—	42,036,981	
Issuance of shares of stock	2,181,550,434	(2,181,550,434)	—	(2,181,550,434)	—	—	—	—	—	—	
Collection of subscription receivable	—	—	573,657,672	573,657,672	—	—	—	—	—	573,657,672	
<b>BALANCES AS AT DECEMBER 31, 2012</b>	<b>P2,905,348,701</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P2,400,000,000</b>	<b>P-</b>	<b>P-</b>	<b>P1,438,627,522</b>	<b>(P7,955)</b>	<b>P6,743,968,268</b>	

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>P109,290,974</b>	P851,846,395	P969,762,428
Adjustments for:			
Depreciation and amortization (Notes 9, 10, 11 and 20)	<b>115,057,289</b>	102,230,436	70,692,363
Interest income (Notes 6 and 18)	<b>(54,221,553)</b>	(40,746,477)	(85,250,024)
Interest expense (Notes 14 and 16)	<b>58,955,965</b>	8,704,953	4,284,992
Retirement benefits cost (Notes 21 and 26)	<b>13,195,759</b>	6,247,801	2,734,096
Unrealized foreign exchange losses	<b>4,910,812</b>	113,956	9,637,895
Gain on sale of AFS financial asset	<b>—</b>	—	(42,536,210)
Gain on disposal of property and equipment	<b>(79,670)</b>	—	—
Operating income before working capital changes	<b>247,109,576</b>	928,397,064	929,325,540
Decrease (increase) in:			
Trade and other receivables	<b>1,260,730,305</b>	(1,707,549,939)	(2,122,934,601)
Real estate inventories	<b>(1,499,591,991)</b>	(89,644,218)	(267,837,680)
Other current assets	<b>(405,503,757)</b>	(279,967,308)	1,463,571,519
Increase (decrease) in:			
Trade and other payables	<b>(309,985,141)</b>	1,745,706,601	(106,785,957)
Payables to related parties	<b>(459,385,258)</b>	(10,583,295)	10,597,784
Deposits and other current liabilities	<b>(5,084,654)</b>	(50,138,816)	103,463,489
Customers' deposits	<b>831,416,479</b>	(87,108,518)	(243,144,730)
Cash generated from (used in) operations	<b>(340,294,441)</b>	449,111,571	(233,744,636)
Income taxes paid, including creditable withholding taxes	<b>(209,538,039)</b>	(235,741,818)	(206,257,423)
Interest received	<b>54,221,553</b>	23,786,704	22,825,762
Interest paid	<b>(56,528,112)</b>	(6,634,163)	(2,092,259)
Net cash from (used in) operating activities	<b>(552,139,039)</b>	230,522,294	(419,268,556)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Investment properties (Notes 9 and 32)	<b>(689,949,580)</b>	(550,498,919)	(730,111,989)
Property and equipment (Notes 10 and 32)	<b>(46,624,540)</b>	(22,832,600)	(37,097,320)
Software (Note 11)	<b>(2,718,728)</b>	(7,589,877)	(12,683,023)
Other noncurrent assets	<b>(18,600,763)</b>	(140,263,035)	(56,138,023)
Proceeds from disposal of property and equipment	<b>616,561</b>	—	—
Proceeds from sale of AFS financial asset	<b>—</b>	—	230,652,811
Net cash used in investing activities	<b>(757,277,050)</b>	(721,184,431)	(605,377,544)

(Forward)



- 2 -

	Years Ended December 31		
	2012	2011	2010
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loans (Note 14)	<b>P1,865,575,748</b>	P1,309,980,533	P2,341,959,458
Payment of loans payable (Note 14)	<b>(999,128,267)</b>	(594,500,000)	(1,607,983,290)
Proceeds from collection of subscription receivable (Note 17)	<b>573,657,672</b>	—	—
Net cash from financing activities	<b>1,440,105,153</b>	715,480,533	733,976,168
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(4,910,812)</b>	(113,956)	(6,788,353)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>125,778,252</b>	224,704,440	(297,458,285)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>594,787,078</b>	370,082,638	667,540,923
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 5 and 32)</b>	<b>P720,565,330</b>	P594,787,078	P370,082,638

See accompanying Notes to Consolidated Financial Statements.

## ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Corporate Information and Authorization for Issue of the Consolidated Financial Statements

##### Corporate Information

Eton Properties Philippines, Inc. (the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 2, 1971 under the name “Balabac Oil Exploration & Drilling Co., Inc.” to engage in oil exploration and mineral development projects in the Philippines. On May 12, 1988, the Parent Company’s registration and licensing as a listed company was approved by the SEC.

On August 19, 1996, the Parent Company’s Articles of Incorporation (the Articles) was amended to: (a) change the Parent Company’s primary purpose from oil exploration and mineral development to that of engaging in the business of a holding company; and (b) include real estate development and oil exploration as among its secondary purposes.

On February 21, 2007, the Parent Company’s Board of Directors (BOD) adopted the following amendments:

- change the corporate name to Eton Properties Philippines, Inc.;
- change the primary purpose to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, residential, including, but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property, improved or unimproved; to acquire, purchase, hold, manage, develop and sell subdivision lots; to erect, construct, alter, manage, operate, lease buildings and tenements; and to engage or act as real estate broker;
- increase the number of directors from 11 to 15; and,
- change of financial year-end from April 30 to December 31.

The above amendments were subsequently adopted by the Parent Company’s shareholders on April 19, 2007 and approved by the SEC on June 8, 2007.

On October 6, 2009, the Parent Company’s BOD approved the acquisition of an approximately 12-hectare property, with an appraised value of P3,953.17 million, owned by Paramount Landequities, Inc. (Paramount), where the Eton Centris projects are situated in exchange for the issuance of 1.60 billion shares to Paramount at P2.50 per share. On October 22, 2009, the Parent Company and Paramount executed the Deed of Conveyance pertaining to the asset-for-share swap (see Note 17). As approved by SEC in July 2011, the property was recognized by the Parent Company at the value of P4.00 billion (see Notes 7 and 17).

As of December 31, 2011, the Parent Company was 55.07%-owned by Paramount, which was then its ultimate parent company, while the ownership of Saturn Holdings, Inc. (Saturn) was reduced to 42.39%. As of December 31, 2010, the Parent Company was 94.39%-owned by Saturn.

On October 22, 2012, the Parent Company’s BOD approved to voluntarily delist the Parent Company from the Philippine Stock Exchange (PSE) in light of the Parent Company’s inability to comply with the minimum public ownership requirement of PSE within the allowed grace period. The delisting of the Parent Company became effective on January 2, 2013.

In line with the Parent Company’s voluntary delisting in December 2012, Paramount acquired 52,144,998 shares out of the 73,798,267 shares of the Parent Company’s common shares owned by the public which is listed with the PSE. The ownership of Paramount in the Parent Company increased to 56.86% as of December 31, 2012.

As of December 31, 2012, the Parent Company became a subsidiary of LT Group, Inc. (LTGI), a publicly listed company incorporated and domiciled in the Philippines, through Paramount. LTGI’s parent company is Tangent Holdings, Inc., a company incorporated and domiciled in the Philippines, which is also now the ultimate parent of the Parent Company.

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

Below are the Parent Company’s ownership interests in its subsidiaries:

Subsidiaries	Percentage of Ownership
Belton Communities, Inc. (BCI)	100%
Eton City, Inc. (ECI)	100%
FirstHomes, Inc. (FHI)	100%
Eton Properties Management Corporation (EPMC)	100%



BCI was incorporated and registered with the SEC on November 5, 2007. On February 18, 2008, the BOD of BCI approved the increase of BCI's capital stock from 20,000 shares to 100,000,000 shares at P1 par value per share and the subscription of the Parent Company to 24,995,000 shares, which, in addition to the 5,000 shares originally subscribed, would equal to 25% of the authorized capital stock; 75% of BCI's capital stock still is unsubscribed. As of December 31, 2012, BCI has not yet filed an application to the SEC for an increase in authorized capital stock.

ECl was incorporated and registered with the SEC on October 8, 2008.

On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly owned subsidiary of the Parent Company with a total subscribed capital stock amounting to P1.25 million.

EPMC was incorporated and registered with the SEC on September 29, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, house, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has not yet started its operations as of December 31, 2012.

All subsidiaries, except for EPMC, are engaged in real estate development.

#### Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements of Eton Properties Philippines, Inc. and its Subsidiaries (the Group) were authorized for issue by the BOD on March 4, 2013.

## 2. Summary of Significant Accounting and Financial Reporting Policies

#### Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis and are presented in Philippine peso (Peso), which is the Parent Company's functional and presentation currency. All values are rounded to the nearest Peso except when otherwise indicated.

#### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

#### **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS and Philippine Accounting Standards (PAS) that became effective beginning January 1, 2012:

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)*, requires additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments have no significant impact on the Group's financial position or performance.

- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)*, clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, Investment Property, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a "sale" basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ("use" basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, Property, Plant and Equipment, always be measured on a sale basis of the asset.

The Group has no investment properties at fair value nor non-depreciable assets under PAS 16 that is carried at revaluation model. The amendment has no impact on the financial statements of the Group.

## **Summary of Significant Accounting Policies**

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012. The financial statements of the subsidiaries are prepared for the same financial reporting year as the Parent Company, using consistent accounting policies.

A subsidiary is an entity over which the Parent Company has control. Control is manifested by the Parent Company's power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Generally, control is present when an entity holds an interest of more than one-half of the voting rights of another entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company or the Group obtains control, and continues to be consolidated until the date that such control ceases. A subsidiary is deconsolidated from the date on which control ceases.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

#### Cash and Cash Equivalents

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

#### Financial Instruments

##### *Date of recognition*

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

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

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

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

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

As of December 31, 2012 and 2011, the Group's financial assets and financial liabilities consist of loans and receivables, and other financial liabilities.

##### *Determination of fair value*

The fair value of financial instruments that are actively traded in organized financial markets is determined with reference to quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For investments and all other financial instruments where there is no active market, fair value is determined using generally acceptable valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial



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assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.

### *Day 1 difference*

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

### *Loans and receivables*

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

As of December 31, 2012 and 2011, the Group's loans and receivables include cash and cash equivalents, trade and other receivables, deposits in escrow bank and refundable deposits.

### *Other financial liabilities*

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

As of December 31, 2012 and 2011, the Group's other financial liabilities include trade and other payables (except those non-contractual liabilities and liabilities to government agencies, payables to related parties, loans payable, payables to landowners, security deposits and advance rentals.

### Impairment of Financial Assets

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

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

### *Loans and receivables*

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

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

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

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

### Derecognition of Financial Assets and Financial Liabilities

#### *Financial assets*

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

- the right to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

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

#### *Financial liabilities*

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

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

### Real Estate Inventories

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

Cost includes:

- Land cost
- Amounts paid to contractors for construction
- Borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

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

### Advances to Contractors

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

### Value-added tax (VAT)

VAT is equal to 12% of the purchase or selling price of the vatable goods and services. VAT imposed on purchases is called input VAT while VAT imposed on sales is called output VAT.



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

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

Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and are not occupied by the Group.

Investments properties, except for land, are carried at cost less accumulated depreciation and any impairment in value. Land is carried at acquisition cost less any impairment in value. The cost of an investment property, except for land, includes its construction costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs. Additions, betterments and major replacements are capitalized while minor repairs and maintenance are charged to expense as incurred.

Construction in progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant asset is completed or put into operational use.

Depreciation of investment properties commences once these are available for use and is computed on a straight-line basis over the estimated useful lives of the investment properties as follows:

	Years
Buildings	25 to 40
Residential unit	5

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

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

Transfers to investment property are made when there is a change in use, as evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when and only when there is a change in use, as evidenced by commencement of owner-occupation or commencement of development with a view to sell. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Investment property is derecognized when either it has been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. The cost of property and equipment is comprised of construction cost, including borrowing costs, or purchase price plus any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Construction in progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment is available for use and is computed on a straight-line basis over their estimated useful lives as follows:

	Years
Transportation equipment	5
Furniture, fixtures and equipment	3 to 5
Leasehold improvements	5 or term of the lease, whichever is shorter

Depreciation and amortization ceases at the earlier of the date that the item is classified as held for sale or included in a disposal group that is classified as held for sale in accordance with PFRS 5 and the date the asset is derecognized.

The assets’ estimated useful lives, and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

When a property and equipment is retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from consolidated statement of financial position and any resulting gain or loss is recognized in consolidated statement of income.

Software

Software, which is included under “Other noncurrent assets” in the consolidated statement of financial position, is measured at cost on initial recognition. Subsequently, software is carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method over the software’s estimated useful life of five years.

Impairment of Noncurrent Nonfinancial Assets

The Group assesses at each financial reporting date whether there is an indication that its noncurrent nonfinancial assets, which include investment properties, property and equipment, and software, may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is calculated as the higher of the asset’s fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in consolidated statement of income.

An assessment is made at each financial reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statement of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset’s revised carrying amount on a systematic basis over its remaining useful life.

Customers’ Deposits including Excess of Collections over Recognized Receivables

Customers’ deposits represent payments from buyers which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is determined based on the revenue recognition policy of the Group.

Security Deposits

Security deposits, included in the “Other current liabilities” and “Other noncurrent liabilities” in the consolidated statement of financial position, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and the fair value of the amount to be refunded to tenants is deferred, included in the “Deferred credits” account in the consolidated statement of financial position, and amortized using the straight-line method under the “Rental income” account in the consolidated statement of income.



Capital Stock and Additional Paid-In Capital

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

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

Treasury Shares

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

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called “deficit.” A deficit is not an asset but a deduction from equity.

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

Revenue and Cost Recognition

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

Real estate sales

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

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

Cost of real estate sales

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

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Rental income

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

Cost of rental income

Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Interest income

Interest income is recognized as it accrues.

Expense Recognition

Expenses are recognized when there is a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Operating expenses, which consist of selling, and general and administrative expenses are recognized when incurred.

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is earned. Accordingly, when the percentage of completion method is used, commissions are recognized in consolidated statement of income in the period the related revenue is recognized.

Borrowing Costs

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

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

Basic/Diluted Earnings Per Share

Basic earnings per share is computed by dividing net income for the year attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, after giving retroactive effect to any stock dividends or stock splits, if any, declared during the year.

Diluted earnings per share is computed in the same manner, with the net income for the year attributable to equity holders of the Parent Company and the weighted average number of common shares outstanding during the year, adjusted for the effect of all dilutive potential common shares, including the shares pertaining to the asset-for-share swap.

Retirement Benefits

Retirement benefits cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees’ projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Retirement benefits costs include current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailment or settlement.

The liability recognized in the consolidated statement of financial position related to the defined retirement benefit plan is equal to the present value of the defined benefit obligation at the financial reporting date less the fair value of the plan assets adjusted by any unrecognized actuarial gains or losses. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of long-term government bonds with maturities approximating the terms of the related pension liabilities or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeds the higher of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. The excess actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.



Income Taxes*Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the financial reporting date.

*Deferred income tax*

Deferred income tax is determined at the financial reporting date using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) [excess MCIT] and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, excess MCIT and unused NOLCO can be utilized before their expiration.

The carrying amount of deferred income tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each financial reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the financial reporting date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged or credited to the income for the period.

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

*Other Comprehensive Income*

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in consolidated statement of income for the year in accordance with PFRS.

*Foreign Currency-Denominated Transactions and Translations*

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the exchange rate at the financial reporting date. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the consolidated statement of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in consolidated statement of income, any exchange component of that gain or loss shall be recognized in consolidated statement of income.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*The Group as lessor*

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated statement of financial position. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under "Other income" account in the consolidated statement of income.

*The Group as lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingencies

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements. Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Events After the Financial Reporting Date

Events after the financial reporting date that provide additional information about the Group's position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

**Future Changes in Accounting Policies**

The following are the new and revised accounting standards and interpretations that will become effective subsequent to December 31, 2012. Except as otherwise indicated, the Group does not expect the adoption of these standards and interpretations to have significant impact on its consolidated financial statements.

*Effective in 2013*

• PFRS 7, *Financial Instruments: Disclosures (Amendments)* - Offsetting Financial Assets and Financial Liabilities, requires an entity to disclose information about rights of set off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with PAS 32. The amendment requires entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a. the gross amounts of those recognized financial assets and recognized financial liabilities;
- b. the amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;



- c. the net amounts presented in the statement of financial position;
- d. the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and amounts related to financial collateral (including cash collateral); and,
- e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

• PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, which addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

• PFRS 11, *Joint Arrangements*, describes the accounting for joint arrangements with joint control; proportionate consolidation is not permitted for joint ventures. It replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. It addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control.

• PFRS 12, *Disclosure of Interests in Other Entities*, includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

• PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

• PAS 1, *Presentation of Financial Statements (Amendments) - Presentation of Items of Other Comprehensive Income*, changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be recycled).

• PAS 19, *Employee Benefits (Amendment)*, removes the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

Increase (decrease) in:	December 31, 2012	January 1, 2012
<b>Consolidated Balance Sheet</b>		
Retirement benefits liability	<b>P9,746,310</b>	P9,516,449
Deferred income tax asset	<b>2,923,893</b>	2,854,935
Other comprehensive income	<b>(1,616,376)</b>	(1,223,990)
Retained earnings	<b>(5,206,040)</b>	(5,437,524)

	For the years ended December 31	
Increase (decrease) in:	2012	2011
<b>Consolidated Statement of Income</b>		
Retirement benefit cost	<b>(P330,691)</b>	(P299,706)
Income tax expense	<b>(99,207)</b>	(89,912)
Net income	<b>231,484</b>	209,794

	For the years ended December 31	
Increase (decrease) in:	2012	2011
<b>Consolidated Statement of Comprehensive Income</b>		
Remeasurement loss on defined benefit obligation	<b>(P560,552)</b>	(P1,748,557)
Income tax effect of remeasurement loss	<b>168,166</b>	524,567
Other comprehensive income for the year, net of tax	<b>(392,386)</b>	(1,223,990)

• PAS 27, *Separate Financial Statements (Revised)*, is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements as a consequence of the new PFRS 10 and PFRS 12.

• PAS 28, *Investments in Associates and Joint Ventures (Revised)*, has been renamed as such as a consequence of the new PFRS 11 and PFRS 12. The revised standard describes the application of the equity method to investments in joint ventures in addition to associates.

• Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

#### Annual Improvements to PFRSs (2009-2011 cycle)

The Financial Reporting Standards Council (FRSC) has approved on May 29, 2012 the adoption of the *Annual Improvements to IFRSs 2009-2011 Cycle*, issued by the International Accounting Standards Board (IASB), as *Annual Improvements to PFRSs (2009-2011 cycle)*.

The annual improvements process provides a vehicle for making non-urgent but necessary amendments to the standards. The amendments are effective for annual periods beginning on or after January 1, 2013. Earlier application of the amendments is permitted.

• PAS 1, *Presentation of Financial Statements*, clarifies the difference between voluntary additional comparative information and minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

• PAS 16, *Property, Plant and Equipment*, clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

• PAS 32, *Financial Instruments: Presentation*, the amendment removes the existing income tax requirements in PAS 32 and requires entities to apply the requirements in PAS 12 to any income tax arising from distributions to equity holders.

• PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*, clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

#### Effective in 2014

• PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of 'currently has a legally enforceable right to set off' and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the entity, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements.

#### Effective in 2015

• PFRS 9, *Financial Instruments: Classification and Measurement*, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using



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the FVO. The adoption of the first phase of PFRS 9 might have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

As of December 31, 2012, the Group did not conduct an evaluation of the impact of PFRS in its financial statements. The Group did not early adopt PFRS 9 in its December 31, 2012 annual consolidated financial statements. The Group will assess the impact of PFRS 9 in its consolidated financial statements upon completion of all the phases of PFRS 9.

### *Deferred Effectivity*

- Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The Group is continuously assessing the impact of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2012. Additional disclosures required by these standards and interpretations will be included in the financial statements when these standards and interpretations are adopted.

## 3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to exercise judgments and use accounting estimates that affect the amounts and disclosures presented in the consolidated financial statements.

Significant judgments and accounting estimates used in the preparation of the consolidated financial statements are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the consolidated financial statements as they become reasonably determinable.

### Judgments

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

### *Revenue recognition*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2012, 2011 and 2010.

### *Classification of financial instruments*

The Group classifies a financial instrument or its component on initial recognition and re-evaluates this designation at every financial reporting date as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position (see Note 28).

### *Operating lease commitments - the Group as lessor*

The Group has entered into commercial property leases of its investment properties. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases. Rental income recognized by the Group amounted to P405.76 million, P306.88 million and P167.14 million in 2012, 2011 and 2010, respectively (see Note 23).

### *Operating lease commitments - the Group as lessee*

Currently, the Group has land lease agreements with several non-related parties and office lease agreement with a related party. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessors. Thus, the Group considers these lease agreements as operating leases. Rental expense recognized by the

Group included under "Outside services" amounted to P10.98 million in 2012, P7.99 million in 2011 and P7.57 million in 2010 (see Notes 20 and 23). Additional rental expense was recognized in 2012 and 2011 related to the lease of a parcel of land where one of the Parent Company's project is located. The additional rental expense, recognized as part of cost of rental income, amounted to P39.31 million in both years.

In determining whether a lease contract is cancellable or not, either acting as a lessor or a lessee, the Group considered, among others, the probability of the cancellation and the significance of the penalty, including economic consequences, to the Group.

### *Classification of properties*

The Group determines whether a property is classified as investment property or real estate inventory as follows:

- Investment properties comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.

- Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is a residential property that the Group develops and intends to sell before or on completion of construction.

The carrying values of the Group's investment properties and real estate inventories amounted to P6,539.67 million and P6,192.11 million, respectively, as of December 31, 2012 and P5,928.28 million and P3,289.98 million, respectively, as of December 31, 2011 (see Notes 7 and 9).

### *Distinction between investment properties and owner-occupied properties*

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

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

The carrying values of the Group's investment properties, and property and equipment amounted to P6,539.67 million and P68.56 million, respectively, as of December 31, 2012 and P5,928.28 million and P54.25 million, respectively, as of December 31, 2011 (see Notes 9 and 10).

### Accounting Estimates and Assumptions

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

### *Revenue and cost recognition*

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

Real estate sales and cost of real estate sales amounted to P2,288.95 million and P1,692.20 million, respectively, in 2012 and P4,884.77 million and P3,500.50 million, respectively, in 2011 and P4,282.94 million and P3,117.02 million, respectively, in 2010.

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

The Group maintains allowance for impairment losses at a level based on the results of the specific and collective assessments under PAS 39. Under the specific assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to stratify its receivables based on the credit risk characteristics of the customers. Impairment loss is then determined based on historical loss experience of the receivables stratified per credit risk profile.



Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology, and assumptions used for the individual and collective assessments are based on management's judgments and estimates. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

As of December 31, 2012 and 2011, the Group did not recognize any allowance for impairment on its loans and receivables (see Note 28).

*Measurement of net realizable value of real estate inventories*

The Group adjusts the cost of its real estate inventories to net realizable value (NRV) based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

As of December 31, 2012 and 2011, real estate inventories, which are carried at cost, amounted to P6,192.11 million and P3,289.98 million, respectively (see Note 7).

*Estimation of useful lives of investment properties, property and equipment excluding land, construction in progress, and software*

The Group estimates the useful lives of its investment properties, property and equipment, and software based on the period over which the assets are expected to be available for use. The estimated useful lives of the investment properties, property and equipment and software are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of investment properties, property and equipment and software would increase depreciation and amortization expense and decrease noncurrent assets.

The carrying values of the Group's investment properties (excluding land and construction in progress), property and equipment (excluding construction in progress) and software amounted to P3,278.23 million, P61.98 million and P14.68 million, respectively, as of December 31, 2012 and P2,616.04 million, P54.25 million and P16.69 million, respectively, as of December 31, 2011 (see Notes 9, 10 and 11).

*Evaluation of impairment of noncurrent nonfinancial assets*

The Group evaluates its nonfinancial assets for any impairment in value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the asset's fair value less costs to sell and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

The Group did not identify any indications of impairment, thus, it believes that the carrying amounts of its noncurrent nonfinancial assets approximate their recoverable amounts as of December 31, 2012, 2011 and 2010.

*Recognition of deferred income tax assets*

The Group reviews the carrying amounts of deferred income tax assets at each financial reporting date and makes adjustments to it to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient future taxable profits to allow all or part of the deferred income tax assets to be utilized. The Group looks at its projected financial performance in assessing the sufficiency of future taxable income.

As of December 31, 2012 and 2011, FHI did not recognize any deferred income tax assets related to NOLCO amounting to P12.09 million and P11.96 million, respectively, and other deductible temporary differences amounting to P15.04 million and P1.48 million, respectively. Also, in 2011, ECI did not recognize deferred income tax assets related to NOLCO amounting to P50.52 million and other deductible temporary differences amounting to P9.13 million.

As of December 31, 2012 and 2011, the Group recognized deferred income tax assets amounting to P235.52 million and P155.50 million, respectively (see Note 22).

*Estimation of retirement benefits costs and liability*

The determination of the Group's retirement benefit costs and obligation is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 and include among others, discount rate and salary increase rate. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions will materially affect retirement benefits obligations.

As of December 31, 2012 and 2011, retirement benefits liability amounted to P23.12 million and P9.92 million, respectively. Retirement benefits cost recognized in 2012, 2011 and 2010 amounted to P13.20 million, P6.25 million and P2.73 million, respectively (see Note 26).

*Determination of fair value of financial instruments*

Where the fair values of financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets information if possible, but where this is not feasible, estimates are used in establishing fair values (see Note 28).

## 4. Segment Information

Operating segments are components of the Group: (a) that engage in business activities from which the Group may earn revenues and incur loss and expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available. The Group's CODM is the Parent Company's BOD. The Parent Company's BOD regularly reviews the operating results of the business units to make decisions on resource allocation and assess performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenues and segment expenses are consistent with those in the consolidated statements of income. Financing costs (including interest expense) and income taxes are managed on a per company basis and are not allocated to operating segments.

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

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

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

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

The business segments where the Group operates follow:

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

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



## 2012

	Residential Developments	Leasing Activities	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P2,288,951,599	P405,757,690	P—	P2,694,709,289
Direct costs	(1,692,201,965)	(149,777,011)	—	(1,841,978,976)
<b>Operating profit</b>	<b>596,749,634</b>	<b>255,980,679</b>	<b>—</b>	<b>852,730,313</b>
Interest income	—	—	54,221,553	54,221,553
Other income	—	—	76,486,140	76,486,140
Finance charges	—	—	(72,353,764)	(72,353,764)
Selling, general and administrative expenses	—	—	(801,793,268)	(801,793,268)
Provision for income tax	—	—	(67,253,993)	(67,253,993)
<b>Net income</b>	<b>P596,749,634</b>	<b>P255,980,679</b>	<b>(P810,693,332)</b>	<b>P42,036,981</b>
<b>Other Information</b>				
Segment assets	P9,942,408,475	P6,666,194,762	P1,386,003,656	P17,994,606,893
Deferred income tax assets - net	—	—	210,732,372	210,732,372
<b>Total segment assets</b>	<b>P9,942,408,475</b>	<b>P6,666,194,762</b>	<b>P1,596,736,028</b>	<b>P18,205,339,265</b>
<b>Segment liabilities</b>	<b>P2,407,139,805</b>	<b>P114,569,746</b>	<b>P8,939,661,446</b>	<b>P11,461,370,997</b>
Segment additions to property and equipment, and investment properties	P49,343,268	P689,949,579	P—	P739,292,847
<b>Depreciation and amortization</b>	<b>P36,505,250</b>	<b>P78,552,039</b>	<b>P—</b>	<b>P115,057,289</b>

## 2011

	Residential Developments	Leasing Activities	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P4,884,774,211	P306,877,063	P—	P5,191,651,274
Direct costs	(3,500,504,637)	(111,675,885)	—	(3,612,180,522)
<b>Operating profit</b>	<b>1,384,269,574</b>	<b>195,201,178</b>	<b>—</b>	<b>1,579,470,752</b>
Interest income	—	—	40,746,477	40,746,477
Other income	—	—	139,612,450	139,612,450
Finance charges	—	—	(9,486,336)	(9,486,336)
Selling, general and administrative expenses	—	—	(898,496,948)	(898,496,948)
Provision for income tax	—	—	(118,555,247)	(118,555,247)
<b>Net income</b>	<b>P1,384,269,574</b>	<b>P195,201,178</b>	<b>(P846,179,604)</b>	<b>P733,291,148</b>
<b>Other Information</b>				
Segment assets	P8,179,455,832	P6,027,696,922	P962,657,466	P15,169,810,220
Deferred income tax assets - net	—	—	145,086,165	145,086,165
<b>Total segment assets</b>	<b>P8,179,455,832</b>	<b>P6,027,696,922</b>	<b>P1,107,743,631</b>	<b>P15,314,896,385</b>
<b>Segment liabilities</b>	<b>P5,041,125,946</b>	<b>P139,155,728</b>	<b>P4,006,341,096</b>	<b>P9,186,622,770</b>
Segment additions to property and equipment, and investment properties	P22,832,600	P584,216,519	P—	P607,049,119
<b>Depreciation and amortization</b>	<b>P33,168,078</b>	<b>P69,062,358</b>	<b>P—</b>	<b>P102,230,436</b>

## 2010

	Residential Developments	Leasing Activities	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P4,282,939,433	P167,136,751	P—	P4,450,076,184
Direct costs	(3,117,019,613)	(57,865,115)	—	(3,174,884,728)
<b>Operating profit</b>	<b>1,165,919,820</b>	<b>109,271,636</b>	<b>—</b>	<b>1,275,191,456</b>
Interest income	—	—	85,250,024	85,250,024
Other income	—	—	183,146,419	183,146,419
Finance charges	—	—	(11,711,618)	(11,711,618)
Selling, general and administrative expenses	—	—	(562,113,853)	(562,113,853)
Provision for income tax	—	—	(238,150,474)	(238,150,474)
<b>Net income</b>	<b>P1,165,919,820</b>	<b>P109,271,636</b>	<b>(P543,579,502)</b>	<b>P731,611,954</b>
<b>Other Information</b>				
Segment assets	P450,665,218	P5,413,121,166	P6,220,690,783	P12,084,477,167
Deferred income tax assets - net	—	—	119,385,978	119,385,978
<b>Total segment assets</b>	<b>P450,665,218</b>	<b>P5,413,121,166</b>	<b>P6,340,076,761</b>	<b>P12,203,863,145</b>
<b>Segment liabilities</b>	<b>P6,184,493,145</b>	<b>P658,565,505</b>	<b>P12,653,028</b>	<b>P6,855,711,678</b>
Segment additions to property and equipment and investment properties	P37,097,320	P730,111,989	P—	P767,209,309
<b>Depreciation and amortization</b>	<b>P23,901,138</b>	<b>P46,791,225</b>	<b>P—</b>	<b>P70,692,363</b>

## 5. Cash and Cash Equivalents

	2012	2011
Cash on hand and in banks	<b>P649,119,554</b>	P577,043,035
Cash equivalents	<b>71,445,776</b>	17,744,043
	<b>P720,565,330</b>	P594,787,078

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates ranging from 0.80% to 3.30% in 2012 and 0.80% to 2.50% in 2011, respectively (see Note 18).

## 6. Trade and Other Receivables

	2012	2011
Contracts receivables	<b>P2,475,769,156</b>	P3,866,777,799
Lease receivables (Note 23)	<b>46,442,945</b>	17,725,114
Receivables from tenants	<b>107,897,108</b>	9,515,934
Receivables from related parties (Note 25)	—	29,606,780
Others	<b>34,153,666</b>	30,461,073
	<b>2,664,262,875</b>	3,954,086,700
Less noncurrent portion of contracts receivables	<b>874,289,535</b>	2,052,868,887
	<b>P1,789,973,340</b>	P1,901,217,813

Contracts receivables consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers.

The Group assigned certain contracts receivables to Banco de Oro Unibank, Inc. (BDO) on a with recourse basis (see Note 14). The total assigned contracts receivables amounted to P438.34 million and P423.07 million as of December 31, 2012 and 2011, respectively.

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned from cash equivalents. Included also in other receivables are the advances to officers and employees, which pertain to



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unliquidated cash advances that are due within one year and unpaid utility charges to tenants. Advances to officers and employees are recoverable through direct salary deduction.

### 7. Real Estate Inventories

	2012	2011
Condominium and residential units	<b>P3,310,838,233</b>	P1,261,777,960
Land held for future development	<b>269,521,994</b>	1,779,180,089
Subdivision projects under development	<b>2,611,749,094</b>	249,024,280
	<b>P6,192,109,320</b>	P3,289,982,329

A summary of the movements in real estate inventories is set out below:

	2012	2011
Beginning of year	<b>P3,289,982,329</b>	P3,187,224,711
Land acquired during the year (Note 15)	<b>2,010,084,400</b>	63,000,000
Development costs incurred	<b>2,633,963,060</b>	3,445,302,255
Borrowing costs capitalized (Notes 14 and 15)	<b>114,015,046</b>	94,960,000
Disposals recognized as cost of sales	<b>(1,692,201,965)</b>	(3,500,504,637)
Transfers to investment property (Note 9)	<b>(163,733,550)</b>	—
End of year	<b>P6,192,109,320</b>	P3,289,982,329

The Group acquired parcels of land from related parties and third parties amounting to P2,010.08 million and P63.00 million in 2012 and 2011, respectively, which will be used for development of condominium units and subdivision projects for sale.

In 2009, the Parent Company acquired parcels of land through an asset-for-share swap agreement. The land with a total appraised value of P3,953.17 million was transferred to the Parent Company in exchange for the issuance of 1.60 billion common shares (see Note 17). A portion of the land where the Group's buildings held for lease are situated, with an allocated cost of P658.86 million, was recognized as investment property in 2009. The remaining portion of the land, with an allocated cost of P3,294.31 million, was considered as real estate inventory. In 2010, the Parent Company reclassified a portion of the land, which was previously recognized as real estate inventory as of December 31, 2009 with cost amounting to P2,187.42 million, to investment property in view of management's plan to develop thereon additional buildings to be held for lease (see Note 9). On July 21, 2011, the SEC approved the valuation of the land acquired through the asset-for-share swap agreement at P4.00 billion, thereby, resulting to an increase in the recorded value of the land by P46.83 million. The increase in the recorded value of the land was allocated to real estate inventories and investment properties as follows:

Real estate inventory	P13.11 million
Investment property	33.72 million
	<b>P46.83 million</b>

Real estate inventories recognized as part of cost of real estate sales in 2012, 2011 and 2010 amounted to P1,692.20 million, P3,500.50 million and P3,117.02 million, respectively.

### 8. Other Current Assets

	2012	2011
Advances to contractors (Note 25)	<b>P639,654,746</b>	P507,450,828
Prepaid commission	<b>385,434,636</b>	301,610,111
Input VAT	<b>235,684,431</b>	74,748,772
Creditable withholding taxes	<b>190,294,174</b>	151,382,106
Deferred rent (Note 23)	<b>66,739,759</b>	59,979,437
Deposits in escrow bank (Note 28)	<b>6,001,833</b>	6,001,833
Others	<b>27,509,203</b>	5,729,870
	<b>P1,551,318,782</b>	P1,106,902,957

Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities related to these advances will be completed within the Group's normal operating cycle. Prepaid commission consists of payments to agents and brokers which will be charged to the consolidated statements of income in the period in which the related revenue is recognized.

Deposits in escrow bank pertain to the escrow funds required by several Escrow Agreements entered into by the Group with the Housing and Land Use Regulatory Board pursuant to the provisions of the temporary licenses to sell issued by the latter to the Group for some of its projects. The Escrow Agreements include, among others, the opening of an escrow account with Allied Banking Corporation (ABC), an entity under common control, where sales proceeds from projects to which the temporary licenses to sell pertain shall be deposited. Such escrow accounts shall only be released upon the Group's compliance with all the requirements for the issuance of a Certificate of License to Sell and Certificate of Registration of the projects.

### 9. Investment Properties

As of December 31, 2012:

	Land	Buildings	Residential Unit	Construction in Progress	Total
<b>Cost</b>					
Beginning of year	<b>P2,951,158,695</b>	<b>P2,739,279,748</b>	<b>P7,620,000</b>	<b>P361,072,406</b>	<b>P6,059,130,849</b>
Additions (Note 14)	<b>4,954,811</b>	<b>222,518,245</b>	—	<b>305,327,207</b>	<b>532,800,264</b>
Transfer	—	<b>361,072,406</b>	—	<b>(361,072,406)</b>	—
Reclassification (Notes 7 and 9)	—	<b>157,149,316</b>	—	—	<b>157,149,316</b>
End of year	<b>2,956,113,506</b>	<b>3,480,019,715</b>	<b>7,620,000</b>	<b>305,327,207</b>	<b>6,749,080,428</b>
<b>Accumulated Depreciation</b>					
Beginning of year	—	<b>123,235,522</b>	<b>7,620,000</b>	—	<b>130,855,522</b>
Depreciation for the year	—	<b>78,552,039</b>	—	—	<b>78,552,039</b>
End of year	—	<b>201,787,561</b>	<b>7,620,000</b>	—	<b>209,407,561</b>
Net Book Values	<b>P2,956,113,506</b>	<b>P3,278,232,154</b>	<b>P—</b>	<b>P305,327,207</b>	<b>P6,539,672,867</b>

As of December 31, 2011:

	Land	Buildings	Residential Unit	Construction in Progress	Total
<b>Cost</b>					
Beginning of year	P2,909,361,095	P2,555,790,535	P7,620,000	P2,142,700	P5,474,914,330
Additions (Note 14)	41,797,600	81,558,593	—	460,860,326	584,216,519
Transfer	—	101,930,620	—	(101,930,620)	—
End of year	2,951,158,695	2,739,279,748	7,620,000	361,072,406	6,059,130,849
<b>Accumulated Depreciation</b>					
Beginning of year	—	54,173,164	7,620,000	—	61,793,164
Depreciation for the year	—	69,062,358	—	—	69,062,358
End of year	—	123,235,522	7,620,000	—	130,855,522
<b>Net Book Values</b>	<b>P2,951,158,695</b>	<b>P2,616,044,226</b>	<b>P—</b>	<b>P361,072,406</b>	<b>P5,928,275,327</b>

In December 2012, the Parent Company reclassified the cost of completed buildings intended for leasing amounting to P163.73 million from real estate inventory to investment properties. In addition, the Parent Company also reclassified the construction cost of showroom amounting to P6.58 million from investment property to property and equipment.

The addition to land cost in 2012 pertains to a parcel of land acquired from a third party amounting to P4.95 million which was leased out starting November 2012 on an "as is where is" basis.

Construction costs of showroom amounting to P6.58 million under investment property, which were still under construction as of December 31, 2012, were transferred to property and equipment (see Note 32).

Land additions in 2011 pertains to the P33.72 million allocated increase in the recorded value of the land acquired by the Group through an asset-for-share swap agreement and the P8.08 million related transaction costs (see Note 7).



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Rental income and direct operating expenses arising from the investment properties amounted to P405.76 million and P149.78 million, respectively, in 2012, P306.88 million and P111.68 million, respectively, in 2011 and P167.14 million and P57.87 million, respectively, in 2010.

Based on the appraisal reports by independent firm of appraisers using market data approach, income approach and cost approach for the investment properties comprising of land, buildings for leasing activities and building improvements, respectively, the appraised values of these investment properties amounted to P10,775.01 million as of December 31, 2012.

Depreciation of investment properties amounting to P78.55 million, P69.06 million and P46.79 million were recognized as part of cost of rental income in 2012, 2011 and 2010, respectively.

### 10. Property and Equipment

As of December 31, 2012:

	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
<b>Cost</b>					
Beginning of year	P57,504,738	P74,584,611	P9,123,401	P—	P141,212,750
Additions	5,449,705	26,210,205	8,381,396	—	40,041,306
Reclassification (Note 9)	—	—	—	6,583,234	6,583,234
Disposals	(1,006,671)	—	—	—	(1,006,671)
End of year	61,947,772	100,794,816	17,504,797	6,583,234	186,830,619
<b>Accumulated Depreciation and Amortization</b>					
Beginning of year	33,250,013	49,198,075	4,512,179	—	86,960,267
Depreciation and amortization for the year (Note 20)	9,789,859	17,987,410	3,998,262	—	31,775,531
Disposals	(469,780)	—	—	—	(469,780)
End of year	42,570,092	67,185,485	8,510,441	—	118,266,018
<b>Net Book Values</b>	<b>P19,377,680</b>	<b>P33,609,331</b>	<b>P8,994,356</b>	<b>P6,583,234</b>	<b>P68,564,601</b>

As of December 31, 2011:

	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
<b>Cost</b>				
Beginning of year	P44,130,500	P65,942,233	P8,307,417	P118,380,150
Additions	13,374,238	8,642,378	815,984	22,832,600
End of year	57,504,738	74,584,611	9,123,401	141,212,750
<b>Accumulated Depreciation and Amortization</b>				
Beginning of year	23,523,974	30,969,355	2,821,521	57,314,850
Depreciation and amortization for the year (Note 20)	9,726,039	18,228,720	1,690,658	29,645,417
End of year	33,250,013	49,198,075	4,512,179	86,960,267
<b>Net Book Values</b>	<b>P24,254,725</b>	<b>P25,386,536</b>	<b>P4,611,222</b>	<b>P54,252,483</b>

There are no fully depreciated property and equipment being used in business as of December 31, 2012 and 2011.

### 11. Other Noncurrent Assets

	2012	2011
Refundable deposits (Note 28)	P124,958,732	P103,133,203
Deferred input VAT	118,451,600	121,676,366
Software	14,679,956	16,690,947
Others	22,830	22,830
	<b>P258,113,118</b>	<b>P241,523,346</b>

Refundable deposits consist principally of amounts paid to utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group's projects. Refundable deposits will be refunded upon termination of the service contract and completion of the projects' construction.

The rollforward analysis of the Group's software follows:

	2012	2011
<b>Cost</b>		
Beginning of year	P21,426,350	P13,836,473
Additions	2,718,728	7,589,877
End of year	24,145,078	21,426,350
<b>Accumulated Amortization</b>		
Beginning of year	4,735,403	1,212,742
Amortization (Note 20)	4,729,719	3,522,661
End of year	9,465,122	4,735,403
<b>Net Book Values</b>	<b>P14,679,956</b>	<b>P16,690,947</b>

### 12. Trade and Other Payables

	2012	2011
Accounts payable	P316,843,897	P367,460,710
Retentions payable (Note 25)	706,980,115	554,392,855
Accrued development costs	2,000,530,247	2,244,973,108
Other accrued expenses	537,797,680	705,310,407
	<b>P3,562,151,939</b>	<b>P3,872,137,080</b>

Accounts payable and retentions payable are normally settled within the Group's normal operating cycle. Other accrued expenses consist primarily of accrued commission expenses and withholding taxes.

### 13. Customers' Deposits

Customers' deposits represent payments from buyers of residential units that will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account also includes the excess of collections over the recognized receivables amounting to P1,366.80 million and P1,389.59 million as of December 31, 2012 and 2011.

As of December 31, 2012 and 2011, customers' deposits amounted to P2,576.20 million and P1,744.78 million, respectively.

### 14. Loans Payable

This account consists of:

	2012	2011
Bank loans	P2,453,500,000	P1,800,500,000
Notes payable	1,174,783,573	990,429,613
	<b>3,628,283,573</b>	<b>2,790,929,613</b>
Less current portion	2,734,065,576	1,447,150,795
Noncurrent portion	<b>P894,217,997</b>	<b>P1,343,778,818</b>

#### Bank loans

On December 10, 2009, the Parent Company entered into an unsecured term loan agreement with ABC to finance the construction of the Parent Company's investment properties. The loan amounting to P300.00 million bears fixed interest rate of 6.66%. Principal repayments are due annually for at least 10.00% of the total principal amount with final repayment in 2012.



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In 2010, the Parent Company obtained additional loans from ABC on various dates for purposes of financing its development activities and for working capital requirements. The details of which follow:

Principal amount	Interest rate
P300.00 million	6.57%
100.00 million	6.50%
100.00 million	6.54%
490.00 million	5.18%

Principal repayments are due annually for at least 5.00% of the total principal amount with final repayment in 2013 for the loans except for the loan amounting to P490.00 million which became due on January 20, 2011. In April 2011, the Parent Company paid the P490.00 million loan to ABC. In July 2012, the Parent Company has accelerated payment for the loan amounting to P300.00 million. In January 2013, the Parent Company again accelerated payment for the two loans each amounting to P100.00 million.

In 2011, the Parent Company obtained additional loans from ABC for purposes of financing its development activities and for working capital requirements. The details of which follow:

Principal amount	Interest rate
P520.00 million	6.00%
300.00 million	6.00%
200.00 million	6.00%
100.00 million	6.00%

Principal repayments are due annually for at least 5% of the total principal amount with final repayment in 2014 for the loans except for the loan amounting to P300.00 million which was paid in May 2012. In January 2013, the Parent Company has accelerated payment for the loans amounting to P520.00 million, P200.00 million and P100.00 million.

In 2012, the Parent Company obtained additional loans from ABC for purposes of financing its development activities and for working capital requirements. The details of which follow:

Principal amount	Interest rate
P500.00 million	6.00%
300.00 million	6.00%
300.00 million	6.00%
256.50 million	6.00%
200.00 million	6.00%

Principal repayments are due annually for at least 5% of the total principal amount with final repayment in 2015. In January 2013, the Parent Company has accelerated payment for the loans amounting to P300.00 million, P300.00 million, P256.50 million and P200.00 million.

### Notes payable

Notes payable includes various notes from BDO which arose from assigning the Groups' contracts receivables on a with recourse basis in 2012 and 2011 (see Note 6). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax, which ranges from 5.22% to 6.00% and 6.00% to 6.66% in 2012 and 2011, respectively, subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first.

Interest on loans payable capitalized as part of investment properties amounted to P15.78 million in 2012, P21.24 million in 2011 and P43.94 million in 2010. Interest on loans payable capitalized as part of real estate inventories amounted to P103.87 million in 2012, P94.96 million in 2011 and P65.43 million in 2010. Capitalization rates in 2012 and 2011 were 5.30% and 5.74%, respectively.

Interest on loans payable recognized as finance charges in the consolidated statements of income in 2012, 2011 and 2010 amounted to P56.29 million, P6.63 million and P4.28 million, respectively.

## 15. Payables to Landowners

In September 2012, the Parent Company executed a P556.78 million promissory note to a landowner in relation to its purchase of land located at the corner of Dela Rosa and V.A. Rufino Sts., Legaspi Village, Makati City with total purchase price of P742.38 million. In November 2012, the Parent Company again executed a promissory note to a landowner amounting to P740.00 million in relation to its purchase of land located at Don Alejandro Roces Avenue, Barangay Obrero, Quezon City with total purchase P1,000.00 million. The details of the notes payable are presented below:

Principal amount	Interest rate	Due date
P556,785,000	PDSTF 3 years + 1.00%	3 years from execution of note
740,000,000	PDSTF 3 years + 0.50%	3 years from execution of note

In 2012, accrued interest on the promissory notes capitalized as part of real estate inventories amounted to P10.15 million (see Note 7).

## 16. Other Noncurrent Liabilities

	2012	2011
Security deposits	<b>P80,003,824</b>	P75,496,201
Less current portion	<b>46,863,263</b>	38,881,148
	<b>33,140,561</b>	36,615,053
Advance rentals	<b>29,430,719</b>	35,437,861
Less current portion	<b>—</b>	10,407,472
	<b>29,430,719</b>	25,030,389
Deferred credits	<b>4,730,149</b>	5,887,431
Less current portion	<b>1,508,092</b>	1,233,709
	<b>3,222,057</b>	4,653,722
Retirement benefits liability (Note 26)	<b>23,119,545</b>	9,923,786
	<b>P88,912,882</b>	P76,222,950

Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term.

Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract.

Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income.

Movements in the unamortized discount of security deposits as of December 31, 2012 and 2011 follow:

	2012	2011
Beginning of year	<b>P5,788,720</b>	P7,859,510
Additions	<b>3,856,411</b>	—
Accretion for the year	<b>(2,427,853)</b>	(2,070,790)
End of year	<b>7,217,278</b>	5,788,720
Less current portion	<b>2,398,238</b>	2,228,613
Noncurrent portion	<b>P4,819,040</b>	P3,560,107

Finance charges recognized in the consolidated statements of income as a result of accretion of interest amounted to P2.43 million, P2.07 million and P6.17 million in 2012, 2011 and 2010, respectively.



**17. Equity**Capital Stock

Information on the number of shares of the Parent Company's capital stock as of December 31, 2012 and 2011 are as follows:

	Number of Shares	
	2012	2011
Authorized	<b>5,000,000,000</b>	5,000,000,000
Issued	<b>2,905,348,701</b>	723,798,267
Subscribed	—	2,181,550,434
Treasury	<b>(10,000)</b>	(10,000)
Outstanding	<b>2,905,338,701</b>	2,905,338,701

On May 12, 1988, the SEC approved the registration and licensing of the 30.00 billion authorized capital stock of the Parent Company with a total par value of P300.00 million divided into 18 billion Class "A" shares with par value of P0.01 per share and 12.00 billion Class "B" shares with par value of P0.01 per share. The Parent Company's management does not have the necessary information on the issue/offer price of these shares. On May 12, 1988, the SEC issued a certificate of permit to offer securities for sale to the Parent Company authorizing the sale of the P300.00 million worth of shares of the latter and issuance of certificates of stock for the shares already subscribed and paid for.

On February 21, 1994, the SEC approved the increase in the authorized capital stock of the Parent Company from P300.00 million to P1.00 billion divided into 60.00 billion Class "A" shares with par value of P0.01 per share and 40.00 billion Class "B" shares with par value of P0.01 per share. The Parent Company's management does not have the necessary information on the issue/offer price of these shares. On March 11, 1994, the SEC issued a certificate of permit to offer securities for sale to the Parent Company authorizing the sale of the latter's shares.

On June 25, 1996, by majority vote of the BOD and stockholder representing at least two-thirds votes of the outstanding capital stock, an amendment on the articles of incorporation of the Parent Company was adopted. The amendment among others includes the changing of the par value of the authorized capital stock of the Parent Company from P0.01 per share to P1.00 per share. The amendment was approved by the SEC on August 12, 1997.

In the stockholders meeting held on January 14, 2003, a quasi re-organization was approved which includes a reduction in the authorized capital stock of the Parent Company from P1.00 billion to P73.80 million and subsequently, an increase in the authorized capital stock of the Parent Company, after decrease is effected, to P5.00 billion divided into 5.0 billion shares having a par value of P1.00 per share.

On October 8, 2003, the SEC approved the decrease in the total authorized capital stock of the Parent Company from P1.00 billion to P73.80 million consisting of 73.80 million shares with par value of P1.00 per share. On the same day, the SEC approved the increase in the total authorized capital stock of the Parent Company from P73.80 million to P5.00 billion consisting of 5.00 billion shares with par value of P1.00 per share. Out of the P4,926.20 million increase in the authorized capital stock, P1,231.55 million has been subscribed by Saturn.

On October 6, 2009, the Parent Company's BOD approved the acquisition of an approximately 12-hectare property, with an appraised value of P3,953.17 million, owned by Paramount where the Eton Centris projects are situated in exchange for the issuance of 1.60 billion shares to Paramount at P2.50 per share. On October 22, 2009, the Parent Company and Paramount executed the Deed of Conveyance pertaining to the asset-for-share swap. In 2011, the property and the deposit for future stock subscription were adjusted by the Parent Company to reflect the amount equal to P4.00 billion as approved by SEC. Accordingly, the Parent Company reclassified the deposit for future stock subscription into subscribed capital stock and additional paid-in capital amounting to P1.60 billion and P2.40 billion, respectively. The subscribed capital stock was issued as of December 31, 2012.

In 2012, subscription receivable from Paramount amounting to P573.66 million was collected. The corresponding subscribed shares were issued as of December 31, 2012.

Movement in the issued shares of the Parent Company follows:

	Number of Shares	
	2012	2011
Issued shares - P1 par value		
At January 1	<b>723,798,267</b>	723,798,267
Issuance of subscribed shares	<b>2,181,550,434</b>	—
At December 31	<b>2,905,348,701</b>	723,798,267

The issued and outstanding registered shares are held by 1,536 and 1,624 stockholders as of December 31, 2012 and 2011, respectively.

Retained Earnings

The retained earnings is restricted for payment of dividends to the extent of the amount of treasury shares amounting to P7,955.

The undistributed earnings of subsidiaries amounting to P112.62 million and P0.01 million as of December 31, 2012 and 2011, respectively, which are included in retained earnings, are not available for declaration as dividend until declared by the subsidiaries.

**18. Interest Income**

	2012	2011	2010
Contracts receivables	<b>P50,331,313</b>	P37,437,876	P62,294,222
Cash and cash equivalents	<b>3,890,240</b>	3,308,601	8,516,058
AFS financial asset	—	—	14,439,744
	<b>P54,221,553</b>	P40,746,477	P85,250,024

**19. Selling Expenses**

	2012	2011	2010
Commissions	<b>P199,952,422</b>	P351,468,556	P283,631,566
Advertising and promotions	<b>108,607,981</b>	120,814,059	93,721,151
	<b>P308,560,403</b>	P472,282,615	P377,352,717

**20. General and Administrative Expenses**

	2012	2011	2010
Outside services (Note 25)	<b>P135,226,768</b>	P98,559,764	P22,395,572
Personnel costs (Note 21)	<b>135,224,469</b>	96,058,360	53,109,771
Taxes and licenses	<b>73,651,422</b>	45,754,352	29,789,648
Depreciation and amortization (Notes 10 and 11)	<b>36,505,250</b>	33,168,078	23,901,138
Communication, light and water	<b>34,944,907</b>	13,776,202	6,663,595
Travel and transportation	<b>21,088,996</b>	8,150,701	6,689,880
Professional fees	<b>20,852,967</b>	28,702,103	12,565,358
Entertainment, amusement and recreation	<b>16,673,602</b>	16,649,550	8,794,263
Office supplies	<b>8,725,811</b>	11,069,077	5,726,970
Provision for (reversal of) probable losses	<b>(26,352,371)</b>	44,308,508	—
Others	<b>36,691,044</b>	30,017,638	10,314,862
	<b>P493,232,865</b>	P426,214,333	P179,951,057

Others includes expenditures on repairs and maintenance, general and motor insurance, training and seminar fees, membership fees and research and development costs.

**21. Personnel Costs**

	2012	2011	2010
Salaries and wages	<b>P100,695,484</b>	P71,534,991	P38,682,705
Employee benefits	<b>21,333,226</b>	18,275,568	11,692,970
Retirement benefits cost (Note 26)	<b>13,195,759</b>	6,247,801	2,734,096
	<b>P135,224,469</b>	P96,058,360	P53,109,771



**22. Income Tax**

a. The details of the Group's provision for current income tax follow:

	2012	2011	2010
RCIT	<b>P128,199,512</b>	P143,722,338	P98,724,681
Deficiency income tax	<b>2,714,665</b>	—	—
MCIT	<b>1,227,638</b>	—	—
Final	<b>758,385</b>	533,096	1,663,017
	<b>P132,900,200</b>	P144,255,434	P100,387,698

b. The Group's recognized net deferred income tax assets as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred income tax assets for the tax effects of:		
Difference between tax and book basis of accounting for real estate transactions	<b>P198,490,733</b>	P131,092,523
Retirement benefits liability	<b>6,935,864</b>	2,977,136
NOLCO	<b>5,493,599</b>	—
Provision for probable losses	<b>5,386,841</b>	13,292,552
Accrued expenses and others	<b>19,213,298</b>	8,141,276
	<b>235,520,335</b>	155,503,487
Deferred income tax liabilities for the tax effects of:		
Difference between tax and book basis of accounting for real estate transactions	<b>14,335,549</b>	—
Deferred rental income	<b>10,452,414</b>	8,424,317
Unrealized foreign exchange gain - net	<b>—</b>	1,993,005
	<b>24,787,963</b>	10,417,322
	<b>P210,732,372</b>	P145,086,165

As of December 31, 2012 and 2011, FHI did not recognize any deferred income tax assets related to NOLCO amounting to P12.09 million and P11.96 million, respectively, and other deductible temporary differences amounting to P15.04 million and P1.48 million, respectively. As of December 31, 2011, ECI did not recognize deferred income tax assets related to NOLCO amounting to P50.52 million and other deductible temporary differences amounting to P9.13 million. The NOLCO can be claimed by ECI and FHI as a deduction from future taxable income until 2015.

c. A reconciliation of the provision for income tax at the applicable statutory income tax rate to the provision for (benefit from) income tax as shown in the consolidated statements of income follows:

	2012	2011	2010
Provision for income tax at the statutory income tax rate	<b>P32,787,292</b>	P255,553,919	P290,928,728
Adjustments for:			
Loss (income) from real estate projects entitled to income tax holiday (Note 31)	<b>40,857,841</b>	(195,505,017)	(135,328,883)
Utilized deductible temporary difference for which no deferred income tax assets were recognized	<b>(15,890,801)</b>	—	—
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized	<b>8,139,534</b>	28,071,578	—

(Forward)

	2012	2011	2010
Nontaxable interest income	<b>(P3,459,458)</b>	P—	(P15,236,373)
Nondeductible deficiency income tax paid pertaining to taxable year 2010	<b>2,714,665</b>	—	—
Nondeductible expenses	<b>2,513,607</b>	25,431,392	—
Interest income subjected to final tax	<b>(408,687)</b>	(465,424)	(5,224,093)
Difference of itemized deduction against 40% of taxable income	—	—	107,524,467
Derecognition of deferred income tax assets deemed to be worthless	—	5,468,799	15,829,098
Derecognition of deferred income tax liability resulting from availment of optional standard deduction	—	—	(20,342,470)
Provision for income tax	<b>P67,253,993</b>	P118,555,247	P238,150,474

**23. Operating Leases**

*The Group as lessor*

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. The Group records rental income on a straight-line basis over the base, non-cancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

Future minimum rentals receivables under noncancellable operating leases as of December 31 follow:

	2012	2011
Within one year	<b>P464,342,439</b>	P313,918,663
After one year but not more than five years	<b>1,051,055,066</b>	802,260,361
More than five years	<b>459,944,362</b>	254,155,325
	<b>P1,975,341,867</b>	P1,370,334,349

*The Group as lessee*

The Group entered into a renewable cancellable lease agreements with ABC, which generally provides for a fixed monthly rent for the Group's office spaces (see Note 25).

The Parent Company also entered into a lease agreement with third parties for the lease of parcels of land where one of the Parent Company's projects is located. The lease agreement shall be for the period of 20 years commencing on January 1, 2011 renewable for another 20 years at the option of the lessee, the Parent Company, with lease payment subject to 5% escalation annually.

Future minimum rentals payables as of December 31, 2012 follow:

Within one year	P14,349,258
After one year but not more than five years	64,939,450
More than five years	1,466,263,353
	<b>P1,545,552,061</b>



## 24. Other Income

	2012	2011	2010
Rental dues	<b>P54,987,952</b>	P34,750,470	P12,661,584
Commission income (Note 25)	—	27,368,617	41,509,424
Others	<b>9,139,783</b>	77,456,441	86,439,201
	<b>P64,127,735</b>	P139,575,528	P140,610,209

Others includes forfeiture income on sales cancellation and marketing fee (see Note 25).

## 25. Related Party Transactions

The Parent Company has transacted with its subsidiaries and other related parties as follows:

Parent Company, Intermediate Parent Company and Subsidiaries	Entities Under Common Control	
<i>Parent Company</i>	<i>Banks</i>	<i>Other Entities Under Common Control</i>
LT Group, Inc. (LTGI)	ABC	Basic Holdings, Corporation (BHC)
	PNB	Grandway Konstruct, Inc. (Grandway)
<i>Intermediate Parent Company</i>		Granspan Development Corporation (Grandspan)
Paramount		Fortune Tobacco Corp.
		Trustmark Holdings, Inc. (Trustmark)
<i>Subsidiaries</i>		Ballpark Realty Corporation (BRPC)
Belton Communities, Inc.		
Eton City, Inc.		
FirstHomes, Inc.		
Eton Properties Management Corporation		

The consolidated statements of income include the following revenue and other income-related (costs and other expenses)-related account balances arising from transactions with related parties:

	Financial Statement Account	2012	2011	2010
<b>Entities Under Common Control</b>	Commission income	<b>P—</b>	P27,368,617	P41,509,424
	Marketing fee	<b>—</b>	30,650,000	—
	Rent expense	<b>(10,983,528)</b>	(7,986,360)	(7,570,000)
	Management fee	<b>(77,200,000)</b>	(62,500,000)	—
<b>Key Management</b>	Short-term benefits	<b>(36,498,890)</b>	(35,572,880)	(38,514,088)
	Post employment benefits	<b>(1,698,751)</b>	(2,218,883)	(2,370,588)

The consolidated balance sheets include the following account balances as of December 31 with related parties:

	Financial Statement Account	Terms and Conditions	2012	2011
<b>Parent Company</b>	Due to related parties	Long term debt; interest bearing	<b>P150,000,000</b>	P—
<b>Entities Under Common Control</b>	Cash and cash equivalents	Deposits and placements; interest bearing	<b>310,442,543</b>	480,292,054
	Other current assets	Advances to contractors; non-interest bearing	<b>105,653,638</b>	84,431,338
	Trade and other payables	Retentions payable; non-interest bearing	<b>128,391,153</b>	139,063,772
	Due to related parties	Short term payable; non-interest bearing	<b>105,750,000</b>	—
	Due to related parties	Management fee; non-interest bearing	<b>13,321,980</b>	—
	Due to related parties	Cash advance; non-interest bearing	<b>845,359</b>	845,359
	Due to related parties	Long-term debt; interest bearing	—	613,459,258
	Other current assets	Prepaid expense; non-interest bearing	—	12,500,000

As of December 31, 2012 and 2011, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

### Transactions with LTGI, parent company

- In December 2012, the Parent Company obtained a loan from LTGI amounting to P150.00 million.

### Transactions with Entities under Common Control

- Portion of the Group's "Cash and cash equivalents" are deposited with ABC and PNB. As of December 31, 2012 and 2011, the outstanding balances of these accounts amounted to P258.67 million and P401.20 million, respectively, for ABC and P51.76 million and P79.09 million, respectively, for PNB.

- The Group entered into a lease agreement with ABC for the use of the latter's common area as office space of the former. Total rental expense recognized by the Group included under "Outside services" amounted to P10.98 million in 2012, P7.99 million in 2011 and P7.57 million in 2010.

- In April 2010, the Parent Company obtained a loan from Trustmark amounting to US\$21.00 million, equivalent to P940.80 million at the date of loan availment, for an interest rate of 3.00% per annum. The loan is payable upon demand. The loan was paid in February 2012. As of December 31, 2012 and 2011, the outstanding loan payable amounted to nil and US\$13.99 million, with Peso equivalent of P613.46 million, respectively. Interest expense incurred on the loan amounted to P0.59 million and 6.96 million in 2012 and 2011, respectively. There were no outstanding interest payable on this loan as of December 31, 2012 and 2011.

- The Group also entered into separate agreements with related parties for the development and sale of units in various projects. The Group shall allocate saleable units to its counterparties in consideration for the use of the parcels of land owned by the latter. In relation to these, the agreement also provides that the Group shall be the exclusive marketing and sales agent of the related projects. On November 12, 2012, one of the separate agreements was rescinded and the Parent Company purchased the land subject to the separate arrangements. Marketing fee recognized in the consolidated statements of income amounted to nil in 2012, P30.65 million in 2011 and nil in 2010. Outstanding receivables arising from such transaction amounted to nil and P27.91 million as of December 31, 2012 and 2011, respectively. The Group has no outstanding balances arising from these agreements with other related parties under common control in 2012 and 2011.

- In 2012, the Parent Company purchased for an amount of P141.00 million certain parcels of land owned by PNB where one of the Parent Company's projects is located. Total outstanding payable amounted to P105.75 million as of December 31, 2012 (see Note 7).

- In 2012, the Group purchased a parcel land from Trustmark amounting to P69.17 million. The Group paid the purchase price in cash (see Note 7).

- In 2011, the Parent Company purchased for an amount of P423.90 million certain parcels of land owned by a related party where one of the Parent Company's projects is located. There was no outstanding payable arising from such transaction.

- Commission income amounting to P27.37 million in 2011 represents cash received from PNB for the service rendered by the Parent Company in selling a property of PNB. There was no outstanding receivable arising from such transaction.

- The Group has outstanding balances to Grandway and Grandspan pertaining to the development of the Group's projects. These outstanding balances pertain to advances to contractors, included as part of "Other current assets" account, and retentions payable presented as part of "Trade and other payables" account in the consolidated statements of financial position.

- In 2011, the Group entered into a management contract agreement with BHC. Total management fee recognized by the Group included in "Outside services" amounted to P77.20 million and P62.50 million in 2012 and 2011, respectively. In 2012 and 2011, total amount of management fee paid by the Group to BHC amounted to P50.80 million and P75.00 million, respectively. The P12.50 million advance payment in 2011 were included under "Other current assets" (see Note 8).

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The following are the transactions and balances among related parties which are eliminated in the consolidated balance sheets:

Amounts owed to:	Amounts owed by:	Terms and Conditions	2012	2011
EPPI	ECI	Advances; noninterest-bearing	<b>P796,608,190</b>	P560,649,956
	FHI	-do-	—	25,354,737
BCI	EPPI	-do-	<b>447,687,262</b>	409,057,039
	ECI	-do-	<b>526,868</b>	—
FHI	EPPI	-do-	<b>20,463,357</b>	—
	ECI	-do-	<b>73,011</b>	—
	BCI	-do-	<b>191,066</b>	—

### 26. Retirement Benefits

The Group has an unfunded, noncontributory defined benefit type of retirement plan covering substantially all of its employees. The normal retirement benefit is equal to seventeen and a half (17.50) days final basic salary for every year of service with a fraction of six months considered as one year.

The components of retirement benefits cost (included in "Personnel costs" under general and administrative expenses) in the Group's consolidated statements of income are as follows:

	2012	2011	2010
Current service cost	<b>P11,721,982</b>	P5,083,767	P2,170,588
Interest cost on defined benefits obligation	<b>1,143,086</b>	864,328	444,460
Actuarial loss	<b>330,691</b>	299,706	119,048
	<b>P13,195,759</b>	P6,247,801	P2,734,096

The retirement benefits liabilities recognized as part of "Other noncurrent liabilities" in the consolidated statements of financial position consist of:

	2012	2011	2010
Present value of defined benefits obligation	<b>P32,865,855</b>	P19,440,235	P11,743,583
Unrecognized actuarial losses	<b>(9,746,310)</b>	(9,516,449)	(8,067,598)
	<b>P23,119,545</b>	P9,923,786	P3,675,985

Changes in the present value of the defined benefits obligation are as follows:

	2012	2011	2010
Beginning of year	<b>P19,440,235</b>	P11,743,583	P4,088,869
Current service cost	<b>11,721,982</b>	5,083,767	2,170,588
Interest cost on defined benefits obligation	<b>1,143,086</b>	864,328	444,460
Actuarial losses on obligation	<b>560,552</b>	1,748,557	5,039,666
End of year	<b>P32,865,855</b>	P19,440,235	P11,743,583

The principal assumptions used in determining retirement benefits cost for the Group in 2012, 2011 and 2010 follow:

		January 1	
	2012	2011	2010
Discount rate	<b>5.31%</b>	7.36%	10.87%
Salary increase rate	<b>10.00%</b>	10.00%	10.00%

The latest actuarial valuation is as of December 31, 2012. The discount rate used was 5.31%.

Amounts for the current and the previous years are as follows:

	2012	2011	2010	2009
Defined benefits obligation	<b>P23,119,545</b>	P9,923,786	P3,675,985	P941,889
Deficit	<b>23,119,545</b>	9,923,786	3,675,985	941,889
Experience adjustments on plan liabilities	<b>(3,084,590)</b>	(2,788,465)	58,099	78,723

### 27. Earnings Per Share

Basic earnings per share:

	2012	2011	2010
Net income	<b>P42,036,981</b>	P733,291,148	P731,611,954
Divided by weighted average number of common shares	<b>2,905,338,701</b>	1,972,005,368	1,305,338,701
Basic earnings per share	<b>P0.0145</b>	P0.3719	P0.5605

Diluted earnings per share:

	2012	2011	2010
Net income	<b>P42,036,981</b>	P733,291,148	P731,611,954
Divided by weighted average number of common shares adjusted for the effect of asset-for-share swap	<b>2,905,338,701</b>	2,905,338,701	2,905,338,701
Diluted earnings per share	<b>P0.0145</b>	P0.2524	P0.2518

Weighted average number of common shares for basic earnings per share	<b>2,905,338,701</b>	1,972,005,368	1,305,338,701
Effect of asset-for-share swap	—	933,333,333	1,600,000,000
Weighted average number of common shares adjusted for the effect of asset-for-share swap	<b>2,905,338,701</b>	2,905,338,701	2,905,338,701

The Parent Company has considered the effect of its potentially dilutive common shares from the asset-for-share swap (see Note 17) for the years ended December 31, 2011 and 2010.

In 2012, there are no potential common shares, and thus, basic and diluted earnings per share are the same.

### 28. Financial Instruments

#### Fair Value Information

Presented below is the comparison of the carrying values and fair values of the Group's financial instruments that are presented in the consolidated statements of financial position.

	December 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	<b>P720,565,330</b>	<b>P720,565,330</b>	P594,787,078	P594,787,078
Trade and other receivables:				
Contracts receivables	<b>2,475,769,156</b>	<b>2,475,769,156</b>	3,866,777,799	3,866,777,799
Lease receivables	<b>46,442,945</b>	<b>46,442,945</b>	17,725,114	17,725,114
Receivables from related parties	—	—	29,606,780	29,606,780
Receivable from tenants	<b>107,897,108</b>	<b>107,897,108</b>	9,515,934	9,515,934
Others	<b>34,153,666</b>	<b>34,153,666</b>	30,461,073	30,461,073
Deposits in escrow bank*	<b>6,001,833</b>	<b>6,001,833</b>	6,001,833	6,001,833
Refundable deposits**	<b>124,958,732</b>	<b>124,958,732</b>	103,133,203	103,133,203
	<b>P3,515,788,770</b>	<b>P3,515,788,770</b>	P4,658,008,814	P4,658,008,814



**Financial Liabilities**

Other financial liabilities:

Trade and other payables:				
Accounts payable	<b>P316,843,897</b>	<b>P316,843,897</b>	P367,460,710	P367,460,710
Retentions payable	<b>706,980,115</b>	<b>706,980,115</b>	554,392,855	554,392,855
Accrued expenses and others	<b>1,763,328,357</b>	<b>1,763,328,357</b>	1,586,338,926	1,586,338,926
Payables to related parties	<b>260,669,359</b>	<b>260,669,359</b>	614,304,617	614,304,617
Loans payable	<b>3,628,283,573</b>	<b>3,671,822,976</b>	2,790,929,613	2,825,048,268
Payable to landowners	<b>1,296,785,000</b>	<b>1,321,178,140</b>	—	—
Security deposits***	<b>80,003,824</b>	<b>74,484,180</b>	75,496,201	71,753,372
Advance rentals***	<b>29,430,719</b>	<b>27,588,711</b>	35,437,861	32,940,030
	<b>P8,082,324,844</b>	<b>P8,142,895,735</b>	P6,024,360,783	P6,052,238,778

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

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

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

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

*Cash and cash equivalents, trade and other receivables, deposits in escrow bank, trade and other payables, and payables to related parties*

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

*Refundable deposits*

The carrying value of deposits is the best estimate of its fair value since the related contracts and agreements pertaining to these deposits have indeterminable terms.

*Loans payable, security deposits and advance rentals*

The fair values of loans payable, security deposits and advance rentals are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 3.28% to 6.57% and 4.51% to 6.57% as of December 31, 2012 and 2011, respectively.

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

- quoted prices in active markets for identical assets (Level 1 );
- those involving inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices) (Level 2); and,
- those inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

As of December 31, 2012 and 2011, there are no financial instruments measured at fair value under Levels 1, 2 and 3. There was no transfer between hierarchy in 2012 and 2011.

Financial Risk Management Objectives and Policies

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

It is the Group's policy that no trading of financial instruments shall be undertaken.

Management closely monitors the cash fund and financial transactions of the Group. Cash funds are normally deposited with banks considered as related parties, and financial transactions are normally dealt with related parties. These strategies, to an extent, mitigate the Group's interest rate and credit risks.

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

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

*Credit risk*

Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group's credit risks are primarily attributable to contracts receivables and other financial assets.

Credit risk is managed primarily through analysis of receivables on a continuous basis. In addition, the credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

The carrying amount of cash in banks and cash equivalents, trade and other receivables, deposits in escrow bank and refundable deposits represent the Group's maximum exposure to credit risk.

The Group is not exposed to concentration risk because it has a diverse base of counterparties. As of December 31, 2012 and 2011, the Group's financial assets are considered as "neither past due nor impaired". The tables below show the credit quality of the Group's financial assets:

As of December 31, 2012:

	High Grade	Medium Grade	Low Grade	Total
Cash in banks and cash equivalents	<b>P719,660,220</b>	<b>P—</b>	<b>P—</b>	<b>P719,660,220</b>
Trade and other receivables:				
Contracts receivables	—	<b>2,475,769,156</b>	—	<b>2,475,769,156</b>
Lease receivables	—	<b>46,442,945</b>	—	<b>46,442,945</b>
Receivables from related parties	—	—	—	—
Receivables from tenants	—	<b>107,897,108</b>	—	<b>107,897,108</b>
Others	—	<b>34,153,666</b>	—	<b>34,153,666</b>
Deposits in escrow bank	—	<b>6,001,833</b>	—	<b>6,001,833</b>
Refundable deposits	—	<b>124,958,732</b>	—	<b>124,958,732</b>
	<b>P719,660,220</b>	<b>P2,795,223,440</b>	<b>P—</b>	<b>P3,514,883,660</b>

As of December 31, 2011:

	High Grade	Medium Grade	Low Grade	Total
Cash in banks and cash equivalents	P594,159,524	P—	P—	P594,159,524
Trade and other receivables:				
Contracts receivables	—	3,866,777,799	—	3,866,777,799
Lease receivables	—	17,725,114	—	17,725,114
Receivables from related parties	—	29,606,780	—	29,606,780
Others	—	39,977,007	—	39,977,007
Deposits in escrow bank	—	6,001,833	—	6,001,833
Refundable deposits	—	103,133,203	—	103,133,203
	P594,159,524	P4,063,221,736	P—	P4,657,381,260

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

High grade - pertains to cash in banks and cash equivalents that are deposited or invested in reputable banks.

Medium grade - pertains to financial instruments wherein counter parties have a minimal likelihood of default and have consistently exhibited good paying habits. These financial assets are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Low grade - pertains to financial instruments with probability of impairment based on historical trend. Contracts receivables under this credit quality classification show propensity to default in payment despite regular follow up actions and extended payment terms.

*Liquidity risk*

Liquidity risk is defined as risk that the Group would not be able to settle or meet its obligations on time. The Group maintains sufficient cash in order to fund its operations.

In mitigating liquidity risk, management measures and forecasts its cash commitments, matches debt maturities with the assets being financed, maintains a diversity of funding sources with its unhampered access to bank financing and the capital markets and develops viable funding alternatives through its customers' deposits arising from the Group's pre-selling activities.

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the undiscounted cash flows from financial assets used for liquidity management.

As of December 31, 2012:

	< 1 year	>1 to < 5 years	> 5 years	Total
Trade and other payables:				
Accounts payables	<b>P316,843,897</b>	<b>P—</b>	<b>P—</b>	<b>P316,843,897</b>
Retentions payable	<b>706,980,115</b>	<b>—</b>	<b>—</b>	<b>706,980,115</b>
Accrued expenses and others	<b>1,763,328,357</b>	<b>—</b>	<b>—</b>	<b>1,763,328,357</b>
Payables to related parties	<b>260,669,359</b>	<b>—</b>	<b>—</b>	<b>260,669,359</b>
Loans payable	<b>2,768,754,132</b>	<b>933,443,330</b>	<b>—</b>	<b>3,702,197,463</b>
Payable to landowners	<b>59,558,839</b>	<b>1,415,902,678</b>	<b>—</b>	<b>1,475,461,516</b>
Security deposits	<b>46,863,263</b>	<b>30,682,461</b>	<b>2,458,100</b>	<b>80,003,824</b>
Advance rentals	<b>—</b>	<b>29,430,719</b>	<b>—</b>	<b>29,430,719</b>
	<b>P5,922,997,962</b>	<b>P2,409,459,188</b>	<b>P2,458,100</b>	<b>P8,334,915,250</b>
Cash and cash equivalents	<b>P720,565,330</b>	<b>P—</b>	<b>P—</b>	<b>P720,565,330</b>
Trade and other receivables*	<b>1,647,922,566</b>	<b>510,134,645</b>	<b>364,154,890</b>	<b>2,522,212,101</b>
	<b>P2,368,487,896</b>	<b>P510,134,645</b>	<b>P364,154,890</b>	<b>P3,242,777,431</b>

\*Excluding other receivables amounting to P142,050,774

As of December 31, 2011:

	< 1 year	>1 to < 5 years	> 5 years	Total
Trade and other payables:				
Accounts payables	P367,460,710	P—	P—	P367,460,710
Retentions payable	554,392,855	—	—	554,392,855
Accrued expenses and others	1,586,338,926	—	—	1,586,338,926
Payables to related parties	614,304,617	—	—	614,304,617
Loans payable	1,541,224,536	1,459,309,005	—	3,000,533,541
Security deposits	41,109,761	40,040,434	134,726	81,284,921
Advance rentals	10,407,472	25,030,389	—	35,437,861
	<b>P4,715,238,877</b>	<b>P1,524,379,828</b>	<b>P134,726</b>	<b>P6,239,753,431</b>
Cash and cash equivalents	P594,787,078	P—	P—	P594,787,078
Trade and other receivables*	1,861,240,806	1,730,561,865	322,307,022	3,914,109,693
	<b>P2,456,027,884</b>	<b>P1,730,561,865</b>	<b>P322,307,022</b>	<b>P4,508,896,771</b>

\*Excluding other receivables amounting to P39,977,007

*Interest rate risk*

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

The table below demonstrates the possible increase (decrease) in the Group's income before income tax as a result of a reasonably possible changes in interest rate as of December 31, 2012 and 2011, with all other variables held constant.

	Changes in basis points	2012	2011
Notes payable	+100	<b>(P11,747,836)</b>	(P9,904,296)
	-100	<b>11,747,836</b>	9,904,296
Bank loans	+100	<b>(24,535,000)</b>	(18,005,000)
	-100	<b>24,535,000</b>	18,005,000

*Foreign currency risk*

Foreign exchange risk is the risk on volatility of earnings or capital arising from changes in foreign exchange rates, mainly US Dollar to Peso exchange rate. The Group's exposure to foreign currency risk arises from US Dollar-denominated cash and cash equivalents, and payables arising from related party transactions.

The following table shows the Group's foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	US Dollar Value	Peso Equivalent	US Dollar Value	Peso Equivalent
Cash and cash equivalents	\$1,886,018	P77,421,038	\$1,717,700	P75,303,968
Payables to related parties	—	—	(13,993,140)	(613,459,258)
	<b>\$1,886,018</b>	<b>P77,421,038</b>	<b>(\$12,275,440)</b>	<b>(P538,155,290)</b>

The exchange rate used as of December 31, 2012 and 2011 is P41.05 to US\$1.00 and P43.84 to US\$1.00, respectively. The Group recognized net foreign exchange loss and gain amounting to P12.36 million in 2012 and P0.04 million in 2011, respectively.

The following tables represent the impact on the Group's income before income tax as a result of about a reasonably possible change in US Dollar to Peso exchange rate with all other variables held constant as of December 31, 2012 and 2011.

As of December 31, 2012:

US\$ Appreciates (Depreciates)	Increase (decrease) in income before income tax
<b>6.20%</b>	<b>P4,800,104</b>
<b>(6.20%)</b>	<b>(4,800,104)</b>

As of December 31, 2011:

US\$ Appreciates (Depreciates)	Increase (decrease) in income before income tax
7%	(P37,670,870)
(7%)	37,670,870

**29. Capital Management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating, complies with externally imposed capital requirements and maintain healthy capital ratios in order to support its business and maximize stockholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2012 and 2011. Also, the Group is not subject to externally imposed capital requirements. The Group had been able to meet its capital management objectives as of December 31, 2012 and 2011.



The table below summarizes the total capital considered by the Group:

	2012	2011
Capital stock	<b>P2,905,348,701</b>	P2,331,691,029
Additional paid-in capital	<b>2,400,000,000</b>	2,400,000,000
Retained earnings	<b>1,438,627,522</b>	1,396,590,541
	<b>P6,743,976,223</b>	P6,128,281,570

### 30. Registration with Philippine Economic Zone Authority (PEZA)

The Group's projects namely, Eton Cyberpod Corinthian and Eton Centris, were registered with PEZA on August 27, 2008 and September 19, 2008, respectively, as non-pioneer "ecozone developer/operator". The locations are created and designated as Information Technology Park.

### 31. Registration with Board of Investments (BOI)

The Group has three BOI-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP).

BP is registered with BOI as a new developer of low-cost housing project on a Non-Pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226) on September 15, 2008. This registration entitles the Group to four years ITH from November 2008 or actual commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to the revenue generated from this project. Revenue with selling price exceeding P3.00 million shall not be covered by ITH.

Likewise, on September 23, 2008, two other projects of the Group namely, OAP and EEL, were registered with the BOI as a new developer of low-cost housing project on a Non-Pioneer status. These two projects shall enjoy the same benefits as BP.

The Group availed of the tax incentives amounting to P47.0 million in 2012 and P29.4.0 million in 2011.

### 32. Notes to Consolidated Statements of Cash Flows

The principal non-cash investing and financing activities of the Group follow:

#### Investing

- In September and November 2012, the Group purchased parcels of land with total amount of P1,742.38 million, which were partially financed through promissory notes totaling to P1,296.79 million (see Note 15).
- In December 2012, the Parent Company reclassified the cost of completed buildings intended for leasing amounting to P163.73 million from real estate inventories to investment properties. In addition, the Parent Company also reclassified the construction cost of showroom amounting to P6.58 million from investment properties to property and equipment (see Note 9).
- In July 2011, the SEC approved the valuation of the land acquired through an asset-for-share swap agreement at P4.00 billion, thereby, resulting to an increase in the value of the land by P46.83 million (see Note 7).

#### Financing

- In 2011, the Parent Company reclassified the deposit for future stock subscription to subscribed capital stock and additional paid-in capital amounting to P1.60 billion and P2.40 billion, respectively, in view of the SEC's approval of the valuation of the property relating to asset-for-share agreement (see Note 17).